Required:

(a) Compute BL's ratios for comparison with the industry. (04)

(b) For each ratio, give one possible reason for variation from the industry. (07)

{Spring 2018, Q.7}

Question-7

SK Limited (SKL) deals in a single product. Following are the summarized financial statements of SKL for the year ended 31 December 2017:

Statement of financial position

	2017	2016
	Rs. in million	
Fixed assets	410	240
Current assets	90	200
	500	**440**
Capital	280	260
Long-term loan	170	100
Current liabilities	50	80
	500	**440**

Statement of profit or loss

	2017	2016
Units sold in million	39	30
	Rs. in million	
Sales	371	300
Cost of goods sold	(273)	(210)
Gross profit	98	90
Selling and administrative	(55)	(60)
Finance cost	(13)	(8)
Net profit	30	22

Additional information:

(i) With effect from 1 January 2017, selling price was decreased by 5% to boost sales volume.

(ii) During the year 2017, suppliers demanded price increase of 4%. SKL resisted the price increase. However, both parties agreed to reduce the credit period.

(iii) SKL had been running its business in a rented building whose annual rent was Rs. 15 million. During the year, SKL purchased this building for Rs. 200 million. Funds were arranged partially through a long-term loan. Useful life of the building is estimated at 40 years.

(iv) 75% of the selling and administration cost incurred in 2016 was fixed cost.

Required:

(a) Compute the following ratios for 2016 and 2017:
- Gross profit margin
- Return on assets
- Debt equity ratio
- Net profit margin
- Return on capital employed
- Current ratio

(08)

(b) Keeping in view the above information, comment on profitability and liquidity position of SKL for 2017. (04)

{Autumn 18}

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Question-8

Following are the summarised financial statements of Keyboard Limited (KL):

Statement of Financial Position

	2018	2017	2016
	---------Rs. in '000---------		
Fixed assets	12,500	10,800	11,800
Current assets:			
Inventory	4,000	4,500	3,000
Debtors	4,200	3,200	1,800
Cash	-	800	2,100
	8,200	8,500	6,900
	20,700	**19,300**	**18,700**
Equity and reserves	10,400	9,000	8,600
Long term loan	4,400	5,000	5,600
Current liabilities:			
Creditors	3,500	4,400	4,200
Bank overdraft	1,500	-	-
Accrued expense	900	900	300
	5,900	5,300	4,500
	20,700	**19,300**	**18,700**

Statement of Profit or Loss

	2018	2017	2016
	---------Rs. in '000---------		
Sales	27,000	24,400	21,000
Cost of goods sold	(21,300)	(19,400)	(17,200)
Gross profit	5,700	5,000	3,800
Operating expenses	(3,400)	(3,000)	(2,400)
Finance cost	(300)	(350)	(400)
Net profit	2,000	1,650	1,000

Required:

(a) Compute working capital cycle in days and liquidity ratios for 2018 and 2017. **(11)**

(b) Suggest three possible measures that can be taken by KL to improve working capital cycle days. **(03)**

{Spring 19}

Question-9

Following are the summarised financial statements of Shispare Limited (SL) and its competitor Trivor Limited (TL) for the year ended 31 December 2019:

Statement of financial position

Assets	SL	TL	Equity & liabilities	SL	TL
	Rs. in million			Rs. in million	
Fixed assets	5,400	7,800	Capital and reserves	8,400	9,450
Current assets:			Long-term loan	1,900	4,600
Inventory	4,800	7,100	Current liabilities:		
Debtors	2,700	3,200	Creditors	2,900	4,500
Cash	1,200	800	Accrued expenses	900	350
	8,700	11,100		3,800	4,850
	14,100	**18,900**		**14,100**	**18,900**

Statement of profit or loss

	SL	TL
	— Rs. in million —	
Sales	16,700	35,400
Cost of goods sold	(11,400)	(27,800)
Gross profit	5,300	7,600
Operating expenses	(3,500)	(4,900)
Finance cost	(250)	(600)
Net profit	**1,550**	**2,100**

Required:

Compute relevant ratios for SL and TL to assess which company seems to:

(i) give more incentives to its customers to pay on time
(ii) avail extended credit terms from its suppliers
(iii) be more efficient in the use of capital
(iv) keep lower selling prices to gain the market share
(v) have better liquidity position
(vi) have higher ability to convert its assets into profit
(vii) control operating expenses more efficiently
(viii) have higher ability to raise bank loan in future

(16)

(Spring 2020 Q.06)

Question-10

Ratios are computed by using numerical values from financial statements to gain meaningful information about an entity. However, due to inherent limitations of ratio analysis, it may not reflect the correct financial situation.

Required:

Briefly explain any **four** limitations of ratio analysis.

(06)

(Autumn 2020 Q 2)

Question-11

Epivac Limited is considering to take some of the following measures during the last week of the year ending 31 March 2021 in order to show better financial performance;

(i) Pay balance of a major supplier from bank overdraft facility and avail 5% discount.
(ii) Sell slow moving stock items at a price equal to cost.
(iii) Recover debtors' balances by offering cash discounts of 10%.
(iv) Offer extended credit terms of 90 days which would increase sales at existing margins.
(v) Dispose-off some non-current assets at gain.

Required:

State the effect (increase, decrease, no effect) of each of the above measure on the financial ratios as per following format:

	Ratios	**(i)**	**(ii)**	**(iii)**	**(iv)**	**(v)**
(a)	Gross profit margin					
(b)	Net profit margin					
(c)	Current ratio					
(d)	Stock turnover (times)					
(e)	Return on non-current assets					
(f)	Quick ratio					

(17)

(Spring 2021 Q 6)

ICAP PAST PAPER SOLUTIONS

Answer-1

(a) **Cash Operating Cycle** = Debtor's Turnover Days + Stock Turnover Days - Creditor Turnover Days

= 60 (W-1) + 72 (W-2) – 54 (W-3)

= 78 Days

The above calculation signifies that the period of time that elapses between the payment for purchase of inventories and the collection of cash from customers in respect of their sale is 78 days. **SDL has to finance the investment in inventories for that time period.**

WORKINGS

(W-1)

$$\text{Debtors Turnover Days} = \frac{\text{Average Debtors}}{\text{Credit Sales}} \times 360 = \frac{50}{300} \times 360 = 60 \text{ Days}$$

(W-2)

$$\text{Stock Turnover Days} = \frac{\text{Average Stock}}{\text{Cost of Sales}} \times 360 = \frac{30}{150} \times 360 = 72 \text{ Days}$$

(W-3)

$$\text{Creditors Turnover Days} = \frac{\text{Average Creditors}}{\text{Credit Purchaes}} \times 360 = \frac{21}{140} \times 360 = 54 \text{ Days}$$

(b) **LIMITATIONS OF RATIO ANALYSIS**

(i) **Limited Comparability:**

Different firms apply different accounting policies. Therefore the ratio of one firm cannot always be compared with the ratio of other firm. Some firms may value the closing stock on weighted average basis while some other firms may value on FIFO basis. Similarly there may be difference in providing depreciation of fixed assets or certain of provision for doubtful debts etc.

(ii) **False Results:**

Accounting ratios are based on data drawn from accounting records. In case that data is incorrect, then the ratios will also be incorrect.

(iii) **Effect of Price Level Changes:**

Price level changes often make the comparison of figures difficult over a period of time. Changes in price affect the cost of production, sales and also the value of assets. Therefore, it is necessary to make proper adjustment for price-level changes, for a good comparison.

(iv) **Qualitative factors are ignored:**

Ratio analysis is a technique of quantitative analysis and thus, ignores qualitative factors, which may be important in decision making.

Answer-2

		2015	2016
Current Ratio	$=\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{51}{15.2} = 3.36 : 1$	$\frac{65.4}{17} = 3.85 : 1$
Quick Ratio	$\frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$	$\frac{25}{15.2} = 1.64 : 1$	$\frac{35}{17} = 2.06 : 1$
Account Receivable collection period	$=\frac{\text{Average debtors}}{\text{Credit sales}} \times 365$	$\frac{[(25 + 16.5) \div 2]\ 20.75}{120} \times 365$ 63 11 day	$\frac{[(35 + 25) \div 2]30}{135} \times 365$ 81.11 days
Inventory holding period	$=\frac{\text{Average inventory}}{\text{Cost of sales}} \times 365$	$\frac{[(26 + 18.75) \div 2]\ 22.38}{90} \times 365$ 90.76 days	$\frac{[(30.4 + 26) - 2]\ 28.2}{101.25} \times 365$ 101.66 days
Account payable payment period	$=\frac{\text{Average Creditor}}{\text{Credit purchases}} \times 365$	$\frac{[(14.7 + 13) \div 2]\ 13.85}{[(90 + 26 - 18.75)]\ 97.25} \times 365$ 51.98 days	$\frac{[(15 + 14.7) \div 2]\ 14.85}{[(101.25 + 30.4 - 26)]\ 1105.65} \times 365$ 51.30 days

Working capital cycle		
	Days	Days
Average days to collect receivable	63.11	81.11
Average inventory holding period	90.76	101.66
Less: Average time to pay accounts payable	(51.98)	(51.30)
	101.89	131.47

Comments

- The company's liquidity position, as evidenced from the current ratio and the quick ratio, appears to be growing stronger. However, the working capital cycle of the company is getting longer in 2016 as compared to 2015.
- The company may face liquidity problem in future, as debtors days are increasing and a large cash is blocked in inventory.
- Higher investment in working capital would result in decrease in ROCE and Return on shareholders' equity.
- The increase in debtor's days may suggest inefficient collection of amounts due from debtors.

Answer-3

(i) Current Ratio $= \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{(W-1)1{,}600}{(W-2)798} = 2.01 : 1$

(ii) Acid test Ratio $= \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}} = \frac{(1{,}600 - 850)}{798} = 0.94 : 1$

(iii) Gearing Ratio $= \frac{\text{Long term debt}}{\text{Share capital and reserves} + \text{Long term debt}} = \frac{750}{1{,}702} = \frac{(1{,}600 - 850)}{(800 + 152 + 750)} = .44$

(iv) Interest cover $= \frac{\text{Profit before interest and tax}}{\text{Interest expense}} = \frac{130.5}{67.5} = \frac{40 + 23 + (750 \times 9\%)}{(750 \times 9\%)} = 1.933$ times

(v) Receivables days $= \frac{\text{Av. Trade receivable}}{\text{Credit sales}} \times 365 = \frac{600}{1{,}360} \times 365 = \frac{600}{(1{,}700 \times 80\%)} = 161$ days

(vi) Inventory days $= \frac{\text{Average Inventory}}{\text{Cost of goods sold}} \times 365 = \frac{475}{1{,}155} \times 365 = \frac{(850 + 100) \div 2}{(1{,}700 - 545)} \times 365 =$ 15[illegible] days

(vii) Creditors days $= \frac{\text{Av. Trade payable}}{\text{Credit Purchases}} \times 365 = \frac{319.2}{1{,}905} \times 365 = \frac{(798 \times 0.4)}{1{,}905\ (W-3)} \times 365 = 61$ days

WORKINGS

(W-1) Total assets = Non-current assets + current assets

2,500 = 900 + C.A

C.A = 1,600

(W-2) Total assets = Equity + Non-current liabilities + current liabilities

2,500 = (800+152) + 750 + C.L

C.L = 798

(W-3)

Dr.	Inventory		Cr.
b/d	100	Cost of sales (1,700 – 545)	1,155
Purchases (bal.)	1,905		
		c/d	850

Answer-4

a) While analyzing liquidity positions of DFL, it is noted that current ratio has steadily increased over the years and is better than industry average. However, the quick ratio has steadily declined and is even lower then industry average. This is a clear evidence that the increase in liquidity is caused by an increase in inventory

Further, by considering the nature of highly perishable inventories kept by a dairy food company, it is a possibility that DFL may bear high inventory losses due to short expiry.

Based on the above, I do not agree with the claim of DFL's directors

b) **Profitability ratios**

S. No	Ratio	Formula	A Limited	B Limited
1	Net Profit/sales ratio	$\frac{\text{Profit After Tax}}{\text{Net Sales}} \times 100$	$\frac{15,547}{161,600} \times 100 = 9.62\%$	$\frac{23,038}{220,150} \times 100 = 10.46\%$
2	Gross Profit/sales ratio	$\frac{\text{Gross Profit}}{\text{Sales}} \times 100$	$\frac{26,440}{161,600} \times 100 = 16.36\%$	$\frac{39,630}{220,150} \times 100 = 18\%$
3	Return on capital employed	$\frac{\text{Profit before Interest \& tax}}{\text{Avg. capital emplyed}} \times 100$	$\frac{15,880 + 720}{51,690} \times 100 = 32.11\%$	$\frac{23,447 + 2,313}{72,114 + 36,057} \times 100 = 23.81\%$
4	Return on asset	$\frac{\text{Profit before Int. and tax}}{\text{Avg. total assets}} \times 100$	$\frac{15,880 + 720}{99,480} \times 100 = 16.69\%$	$\frac{23,447 + 2,313}{161,806} \times 100 = 15.92\%$

Company B's gross profit and net profit ratio is slightly higher as compared to Company A. The difference is not significant and may be on account of higher level of sales resulting in lesser fixed costs per unit.

Company A's return on capital employed ratio and return on asset employed ratio are better than Company B, because Company B has accumulated large balances of cash despite of availing long term loan. Had Company B had used its cash balances to pay off the long term loan, it would have both of these ratio better than Company A

Liquidity Ratios

Sr. No	Ratio	Formula	A	B
5	Current Ratio	$\frac{\text{Current Asset}}{\text{Current Liabilities}}$	$\frac{65,020}{47,790} = 1.36$ times	$\frac{113,730}{53,635} = 2.12$ times
6	Quick Ratio	$\frac{(\text{Current Assets - Inventory})}{\text{Current Liabilities}}$	$\frac{65,020 - 21,700}{47,790} = 0.91$ Times	$\frac{113,730 - 20,000}{53,635} = 1.75$ times

Company B has better current and quick ratio. However, it appears that these ratios are better than Company A due to substantially high amount of trade debts in term of percentage of sales as sales days. It also represents a risk that these trade debts may prove irrecoverable. Moreover, they may be indicative of inefficient in debt collection as well.

Working capital turnover ratios

Sr. No	Ratio	Formula	A	B
7	Debtor turnover days	$= \frac{\text{Avg. Trade receivable}}{\text{credit sales}} \times 365$	$= \frac{24,470}{161,600} \times 365 = 55.27$ days	$= \frac{44,030}{220,150} \times 365 = 73$ days
8	Inventory turnover days	$\frac{\text{Avg. Inventory}}{\text{COS}} \times 365$	$\frac{21,700}{135,160} \times 365 = 58.60$ days	$\frac{20,000}{220,150} \times 365 = 40.44$ days
9	Creditor turnover days	$\frac{\text{Avg. Trade Payable}}{\text{Credit purchase}} \times 365$	$\frac{35,790}{135,160} \times 365 = 96.65$ days	$\frac{45,135}{180,520} \times 365 = 91.26$ days
10	Business /Cash Cycle	Inventory days + debtor days – Creditor days	58.60 + 55.27 – 96.65 = 117.22 days	40.44 + 73 – 91.26 = 22.18 days

Stock turnover of Company B is better than that of Company A. Company B is turning over its stock 9 times whereas company A is doing it 6 times a year.

Company A is more effectively collecting it's debtors than Company B. This could also be due to the fact that Company B is following a lenient credit policy to attract more revenue. This fact is also supported from higher stock turnover ratio of Company B.

Company A have availed better credit facility from its creditors but it may have forgone some settlement discounts which might have resulted in lower gross profit ratio than that of Company B.

Answer-5

Ratios	Reasons for fluctuation with previous year	Reason for fluctuation with Industry
Gross profit margin	In line with previous year. No variation.	Lower than industry • The company is in initial phase and may have kept the selling prices lower than the industry to gain the market share. • The company may not have been able to purchase raw material at prices which is available to its competitors. • The company may not have been able to obtain economies of scale in its production which may have been obtained by its competitors. • Possibility of higher production costs.

Net profit margin	Higher than previous year: • Tight control over operating costs. • Increase in other income. • Decrease in fixed cost per unit due to increase in sale.	Lower than industry however, the difference is mainly attributed to lower gross profit margin.
Return on shareholder's equity	Higher than previous year: • Reduction in tax rates. • Reduction in interest rates. • Decrease in equity might be due to buyback of shares. • Distribution of profits from previous year which resulted in decrease in equity.	Lower than industry • Lower gross profit and net profit margins. • Lower leverage. • Higher net assets resulting in higher equity.
Current ratio	Lower than previous year: • The company might have obtained running finance facility to fund it's operations in the current year. • Long term loan payments might have become due in the next 12 month, which decreases the current ratio. • Decrease in current assets due to better inventory management/ reduction in credit period of debtors.	Lower than industry • Since the debt equity ratio is lower than the industry, company might have obtained running finance or might have availed extended credit terms from suppliers.
Debt to equity ratio	Higher than previous year • Decrease in reserves due to dividend payout. • Further debt obtained during the period. • Decrease in equity might be due to buyback of shares.	Lower than industry • Being a new entrant the company may be in the phase of expansion thereby raising debt accordingly.
Cash operating cycle	Lower than previous year • Increase in current liabilities might be due to increase in credit period. • Decrease in current assets which might be due to greater stock turnover or better inventory management. • By giving lower credit days to debtors.	In line with industry.

Answer.6

Boom Limited

Comparison of BL's ratios with industry average and possible reasons for variation

Ratios	(a) BL's ratio	Industry's ratios	(b) Reasons for variation from industry
Gross profit margin	**16.67%** $\frac{3,500}{21,000} \times 100$	23.50	Lower than industry ▪ Purchase of raw material at higher prices as compared to its competitors ▪ Inability to obtain economies of scale in production as compared to its Competitors ▪ Higher production costs due to Inefficiencies ▪ Deliberately keeping selling prices lower to gain the market share
Net profit margin	**3.83%** $\frac{805}{21,000} \times 100$	7.70%	Lower than industry ▪ BL's gross profit margin is 6.8% lower than industry (16.6% Vs 23.5%) whereas net profit margin is only 3.9% lower which indicates that BL's operating expenses as a percentage of sales are approximately 2.9% lower than the industry
Current ratio	**1.50** $\frac{1,500}{1,000}$	2.75	Lower than industry ▪ Since gearing ratio is lower than the industry so BL might have: – obtained running finances as compared to long-term financing by the industry – availed extended credit terms from suppliers ▪ Low inventory levels are maintained by BL Shorter credit terms are given to debtors
Gearing ratio	**37.5: 62.5** $\frac{3,000}{4,000 + 1,000 + 3,000}$	50 : 50	Lower than industry ▪ Difficulty in raising long-term finance from banks due to low profits Running finance or extended credit terms from suppliers are available for BL
Return on non-current assets	**21.33%** $\frac{1,150 + 450}{7,500} \times 100$	32.90%	Lower than industry ▪ Lower profit margins Relatively newer non-current assets have higher carrying value
Return on capital employed	**20.00%** $\frac{1,150 + 450}{4,000 + 1,000 + 3,000} \times 100$	27.40%	Lower than industry ▪ Lower profit margins High shareholder's equity
Return on equity	**16.10%** $\frac{805}{4,000 + 1,000} \times 100$	31.30%	Lower than industry ▪ Lower profit margins ▪ Higher shareholder's equity/low gearing ratio

Answer.7

(a) SK Traders

Computation of ratios

		2017	2016
(i)	Gross profit margin	26.42% (98 ÷ 371) × 100	30.00% (90 ÷ 300) × 100
(ii)	Net profit margin	8.09% (30 ÷ 371) × 100	7.33% (22 ÷ 300) × 100
(iii)	Return on assets	8.60% (30 + 13) ÷ 500 × 100	6.82% (22 + 8) ÷ 440 × 100
(iv)	Return on capital employed	9.56% (30 + 13) ÷ (280 + 170) × 100	8.33% (22 + 8) ÷ (260 + 100) × 100
(v)	Debt equity ratio	0.38 170 ÷ (280+ 170)	.028 100 ÷ (260 + 100)
(vi)	Current ratio	1.80 90 ÷ 50	2.50 200 ÷ 80

(b) (i) Profitability:

In 2017, gross profit margin of SKL has reduced from 30% to 26.42%. However, gross and net profits amounts have been increased by Rs. 8 million mainly due to:

- Increase in sales volume as a result of 5% decrease in selling price. This resulted in increase in gross profit by 8.89% (98-90) ÷ 90 × 100].
- Acquisition of building has resulted in savings in expenses as rent saved (Rs. 15 million) is higher than the depreciation (Rs. 5 million) and increased in finance cost (Rs. 5 million)
- Since 75% of selling and administrative cost was fixed, expenses, did not increase due to increase in sales volume (Economics of scale)

(ii) Liquidity:

The decrease in current ratio from 2.5 to 1.8 is net effect of the following:

- Cash payment for purchase of building which significantly decreased current assets.
- Prompt payment to suppliers which decreased the current liabilities.

Answer-8

(a) Working capital cycle

	2018	2017
	Number of days	
Average days to collect debtors	50.0	37.4
Average inventory holding period	72.8	70.5
Less: Average time to pay creditors	(69.3)	(75.1)
	53.5	32.8

Liquidity ratios:

		2018	2017
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	$\frac{8200}{5900}$	$\frac{8500}{5300}$
		1.39 : 1	1.60 : 1
Quick Ratio	$\frac{\text{Current Assets} - \text{inventory}}{\text{Current Liabilities}}$	$\frac{8200-4000}{5900}$	$\frac{8500-4500}{5300}$
		0.71 : 1	0.75 : 1

(b) Following measures may be taken by KL to improve working capital cycle days:

(i) Negotiating better terms with creditors to avail maximum possible credit period;

(ii) Improvement in debtor collection period by offering cash / settlement discounts (i.e., giving incentives to customers);

(iii) Establishing a credit evaluation department to improve debtor collection by avoiding selling to those which have history of late payment or default.

W-1	Debtors collection period (in days)	$\frac{\text{Average debtors}}{\text{Credit sales}} \times 365$	$\frac{(4200 + 3200)/2}{27{,}000} \times 365$	$\frac{(3200 + 1800)/2}{24{,}400} \times 365$
			50 days	**37.4 days**
W-2	Inventory holding period (in days)	$\frac{\text{Average inventory}}{\text{Cost of sales}} \times 365$	$\frac{(4000 + 4500)/2}{21{,}300} \times 365$	$\frac{(4500 + 3000)/2}{19{,}400} \times 365$
			72.8 days	**70.5 days**
W-3	Creditors payment period (in days)	$\frac{\text{Average creditors}}{\text{Credit purchases}} \times 365$	$\frac{(3500 + 4400)/2}{21{,}300 + 4000 - 4500} \times 365$	$\frac{(4400 + 4200)/2}{19{,}400 + 4500 - 3000} \times 365$
			69.3 days	**75.1 days**

Answer-9

	Ratios calculation	SL	TL
(i)	Debtor days $= \frac{\text{Average debtors}}{\text{Credit sales}} \times 365$	$= \frac{2{,}700}{16{,}700} \times 365 = $ **59.01 days**	$= \frac{3{,}200}{35{,}400} \times 365 = $ **32.99 days**
	TL is giving more incentives to its customers to pay on time.		
(ii)	Crebtor days $= \frac{\text{Average Crebtors}}{\text{Credit purchases}} \times 365$	$= \frac{2{,}900}{11{,}400} \times 365 = $ **92.85 days**	$= \frac{4{,}500}{27{,}800} \times 365 = $ **59.08 days**
	SL is availing extended credit terms from its suppliers.		
(iii)	ROCE $= \frac{\text{Profit before interest \& tax}}{\text{Average capital employed}} \times 100$	$= \frac{1{,}550 + 250}{8{,}400 + 1{,}900} \times 100 = $ **17.48%**	$= \frac{2{,}100 + 600}{9{,}450 + 4{,}600} \times 100$ = **19.22%**
	TL is more efficient in the use of capital.		
(iv)	GP ratio $= \frac{\text{Gross profit}}{\text{Sales}} \times 100$	$= \frac{5{,}300}{16{,}700} \times 100 = $ **31.74%**	$= \frac{7{,}600}{35{,}400} \times 100 = $ **21.47%**
	TL is keeping lower selling prices to gain the market share.		
(v)	Current ratio $= \frac{\text{Current assets}}{\text{Current liabilities}}$	$= \frac{8{,}700}{3{,}800} = $ **2.29 times**	$= \frac{11{,}100}{4{,}850} = $ **2.29 times**
	Quick ratio $= \frac{\text{Current} - \text{inventories}}{\text{Current liabilities}}$	$= \frac{8{,}700 - 4{,}800}{3{,}800} = $ **1.03 times**	$= \frac{11{,}100 - 7{,}100}{4{,}850} = $ **0.82 times**
	SL has better liquidity position.		
(vi)	ROA $= \frac{\text{Profit before interest \& tax}}{\text{Average total assets}} \times 100$	$= \frac{1{,}550 + 250}{14{,}100} \times 100 = $ **12.77%**	$= \frac{2{,}100 + 600}{13{,}900} \times 100 = $ **14.29%**
	TL has higher ability to convert its assets into profit.		
(vii)	Operating exp. rato $= \frac{\text{Operating exp.}}{\text{Sales}} \times 100$	$= \frac{3{,}500}{16{,}700} \times 100 = $ **20.96%**	$= \frac{4{,}900}{35{,}400} \times 100 = $ **13.84%**
	TL is control operating expenses more efficiently.		
(viii)	Gearing ratio $= \frac{\text{Debt}}{\text{Equity} + \text{debt}} \times 100$	$= \frac{1{,}900}{8{,}400 + 1{,}900} \times 100 = $ **18.45%**	$= \frac{4{,}600}{9{,}450 + 4{,}600} \times 100 = $ **32.74%**
	SL has higher ability to raise bank loan in future because it is low geared.		

Answer-10

(i) **Historical**

All information used in ratio analysis is derived from actual historical results. This does not mean that the same results will carry forward into the future. However, ratio analysis can be used on pro forma information and compare it to historical results for consistency.

(ii) **Historical versus current cost**

The information on the income statement is stated in current costs (or close to it), whereas many elements of the balance sheet are stated at historical cost (which could vary substantially from current costs). This disparity can result in unusual ratio results.

(iii) **Inflationary effect**

If the rate of inflation has changed in any of the periods under review, this can mean that the numbers are not comparable across periods. For example, if the inflation rate was 100% in one year, sales would appear to have doubled over the preceding year, when in fact sales did not change at all.

(iv) **Aggregation**

The information in a financial statement line item that is used for a ratio analysis may have been aggregated differently in the past, so that running the ratio analysis on a trend line does not compare the same information through the entire trend period.

Answer-11

S. No.	Ratios	Measures				
		(i)	(ii)	(iii)	(iv)	(v)
(a)	Gross profit %	No effect	Decrease	No effect	No effect	No effect
(b)	Net profit %	Increase	Decrease	Decrease	Increase	Increase
(c)	Current ratio	Increase	No effect	Decrease	Increase	Increase
(d)	Stock turnover (times)	No effect	Increase	No effect	Increase	No effect
(e)	Return on non-current assets	Increase	No effect	Decrease	Increase	Increase
(f)	Quick ratio	Increase	Increase	Decrease	Increase	Increase

ICAP QUESTION BANK QUESTION

Question-1

Wasim is an importer and retailer of vegetable oils. Extracts from the financial statements for this year and last are set out below.

Income statements for the years ended 30 September

	Year 7	Year 6
	Rs. '000'	Rs. '000'
Revenue	2,160	1,806
Cost of sales	(1,755)	(1,444)
Gross profit	405	362
Distribution costs	(130)	(108)
Administrative expenses	(260)	(198)
Profit before tax	15	56
Income tax expense	(6)	(3)
Profit for the period	9	53

Statements of financial position as of 30 September

	Year 7	Year 6
	Rs. '000'	Rs. '000'
Assets		
Non-current assets		
Property, plant and equipment	78	72
Current assets		
Inventories	106	61
Trade receivables	316	198
Cash	-	6
	422	265
Total assets	500	337
Equity and liabilities		
Equity		
Ordinary shares	110	85
Preference shares	23	11
Share premium	15	-
Revaluation reserve	20	20
Retained earnings	78	74
	246	190
Current liabilities		
Bank overdraft	49	-
Trade payables	198	142
Current tax payable	7	5
	254	147
Total equity and liabilities	500	337

Required

Define and calculate the following ratios for two years:

(a) Gross profit percentage.
(b) Net profit percentage
(c) Return on capital employed
(d) Asset turnover
(e) Current ratio
(f) Quick ratio
(g) Average receivables collection period
(h) Average payables period
(i) Inventory turnover

(ICAP Example 2)

Question-2

The income statements and statements of financial position of two manufacturing companies in the same sector are set out below.

	Amir	Mo
	Rs.	Rs.
Revenue	150,000	700,000
Cost of sales	(60,000)	(210,000)
Gross profit	90,000	490,000
Interest payable	(500)	(12,000)
Distribution costs	(13,000)	(72,000)
Administrative expenses	(15,000)	(35,000)
Profit before tax	61,500	371,000
Income tax expense	(16,605)	(100,170)
Profit for the period	44,895	270,830
Assets		
Non-current assets		
Property	-	500,000
Plant and equipment	190,000	280,000
	190,000	780,000
Current assets		
Inventories	12,000	26,250
Trade receivables	37,500	105,000
Cash at bank	500	22,000
	50,000	153,250
Total assets	240,000	933,250
Equity and liabilities		
Equity		
Share capital	156,000	174,750
Retained earnings	51,395	390,830
	207,395	565,580

Non-current liabilities		
Long-term debt	10,000	250,000
Current liabilities		
Trade payables	22,605	117,670
Total equity and liabilities	240,000	933,250

Required

Define and calculate the following ratios for each company:

(a) Gross profit percentage.
(b) Net profit percentage
(c) Return on capital employed
(d) Asset turnover
(e) Current ratio
(f) Quick ratio
(g) Average receivables collection period
(h) Average payables period
(i) Inventory turnover

(ICAP Example 3)

Question-3

Alpha Limited and Omega Limited are in the same trade, but operate in different areas. Their accounts for the year ended 31 December, 2016 are as follows:

Profit and loss account	**Alpha Limited**		**Omega Limited**	
	Rs. '000'	**Rs. '000'**	**Rs. '000'**	**Rs. '000'**
Sales		1,440		1,720
Less: Cost of sales		(1,120)		1,342
Gross profit		320		378
Less: Overheads		(220)		300
Profit before tax		100		78
Taxation	40		30	
Dividends	20		24	
		60		54
Retained earnings		40		24
Statement of financial position				
Share capital of Rs. 1 each		600		200
Reserves		240		104
		840		304
8% Debentures (Loan)		-		120
		840		424
Represented by:				
Non-current assets at cost		660		520
Less: Depreciation		200		160
		460		360

Current assets:				
Inventory	280		172	
Receivables	310		300	
Cash	30		32	
	620		504	
Current liabilities:				
Taxation	40		30	
Creditors	180		344	
Bank overdraft	-		42	
Dividends	20		24	
	(240)		(440)	
		380		64
Net Current assets		840		424

Required

(a) Compute the following ratios for each of the companies:
 (i) Current ratio
 (ii) Acid test
 (iii) Creditors ratio
 (iv) Collection period or Receivables Ratio

(b) Carry out comparative analysis of the companies based on the computed ratios in (a) above.

(ICAP Example 4)

Question-4

Ratios are computed by using numerical values from financial statements to gain meaningful information about an entity. However, due to inherent limitations of ratio analysis, it may not reflect the correct financial situation.

Required:

Briefly explain any four limitations of ratio analysis.

(ICAP Example 10)

ICAP QUESTION BANK SOLUTIONS

Answer-1

Ratio	Formula	Year 6	Year 7
Gross profit percentage	$\frac{\text{Gross Profit}}{\text{Sales}} \times 100$	$\frac{362}{1{,}806} \times 100 = 20.04\%$	$\frac{405}{2{,}160} \times 100 = 18.75\%$
Net profit percentage	$\frac{\text{Profit after tax}}{\text{Sales}} \times 100$	$\frac{53}{1{,}806} \times 100 = 2.94\%$	$\frac{9}{2{,}160} \times 100 = 0.42\%$
Return on capital employed	$\frac{\text{Profit before int. and tax}}{\text{Avg. capital employed}} \times 100$	$\frac{56}{190} \times 100 = 29.47\%$	$\frac{15}{\frac{246+190}{2}} \times 100 = 6.88\%$
Asset turnover	$\frac{\text{Sales}}{\text{Capital employed}}$	$\frac{1{,}806}{190} = 9.5$ times	$\frac{2{,}160}{246} = 8.8$ times
Current Ratio	$\frac{\text{Current Asset}}{\text{CurrentLiabilities}}$	$\frac{265}{147} = 1.8$ times	$\frac{422}{254} = 1.7$ times
Quick Ratio	$\frac{(\text{Current Asset} - \text{Inventory})}{\text{Current Liabilities}}$	$\frac{265-61}{147} = 1.39$ times	$\frac{422-106}{254} = 1.24$ times
Average receivables collection period	$\frac{\text{Average Debtor}}{\text{Net Credit Sales}} \times 365 = \ldots$ Days	$\frac{198}{1{,}806} \times 365 = 40$ days	$\frac{(198+316)/2}{2{,}160} \times 365 = 43$ days
Average payables period	$\frac{\text{Average Creditor}}{\text{Credit Purchase}} \times 365 = \ldots$ days	$\frac{142}{1{,}444} \times 365 = 36$ days	$\frac{198+142}{1{,}800(w-1)} \times 365 = 35$ days
Inventory turnover	$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}} = \ldots$ times	$\frac{1{,}444}{61} = 23.67$ times	$\frac{1{,}755}{(61+106)/2} = 21.02$ times

(W-1)

Inventory a/c Year-7

Dr.			Cr.
b/d	61	Cost of sales	1,755
Purchases (bal.)	1,800	c/d	106

Answer-2

Ratio	Formula	Amir	M.
Gross profit percentage	$\frac{\text{Gross Profit}}{\text{Sales}} \times 100$	$\frac{90{,}000}{150{,}000} \times 100 = 60\%$	$\frac{490{,}000}{700{,}000} \times 100 = 70\%$
Net profit percentage	$\frac{\text{Net Profit}}{\text{Sales}} \times 100$	$\frac{44{,}895}{150{,}000} \times 100 = 29.9\%$	$\frac{270{,}830}{700{,}000} \times 100 = 38.7\%$
Return on capital employed	$\frac{\text{Profit before int. and tax}}{\text{Avg. capital employed}} \times 100$	$\frac{(61{,}500+500)}{(207{,}395+10{,}000)} \times 100 = 29\%$	$\frac{(371{,}000+12{,}000)}{(565{,}580+250{,}000)} \times 100 = 47\%$
Asset turnover	$\frac{\text{Sales}}{\text{Avg. Capital Employed}}$	$\frac{150{,}000}{207{,}395+10{,}000} = 0.7$ times	$\frac{700{,}000}{565{,}580+250{,}000} = 0.9$ times
Current Ratio	$\frac{\text{Current Asset}}{\text{Current Liabilities}}$	$\frac{50{,}000}{22{,}605} = 2.21$ times	$\frac{153{,}250}{117{,}670} = 1.30$ times
Quick Ratio	$= \frac{\text{Current Asset} - \text{Inventory}}{\text{CurrentLiabilities}}$	$\frac{50{,}000-12{,}000}{22{,}605} = 1.7$ times	$\frac{153{,}250-26{,}250}{117{,}670} = 1.1$ times
Average receivables collection period	$\frac{\text{Average Debtor}}{\text{Net Credit Sales}} \times 365 = \ldots$ Days	$\frac{37{,}500}{150{,}000} \times 365 = 91$ days	$\frac{105{,}000}{700{,}000} \times 365 = 55$ days

Average payables period	$\frac{\text{Average Creditor}}{\text{Credit Purchase}} \times 365 = \text{.... days}$	$\frac{22,605}{60,000} \times 365 = 138$ days	$\frac{117,670}{210,000} \times 365 = 205$ days
Inventory turnover	$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}} = \text{..... times}$	$\frac{60,000}{12,000} = 5$ times	$\frac{210,000}{26,250} = 8$ times

Answer-3

(a)

		Alpha Limited	Omega Limited
(i)	**Current ratio** $\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{620,000}{240,000} = 2.58:1$	$\frac{504,000}{440,000} = 1.15:1$
(ii)	**Acid test** $\frac{\text{Current assets} - \text{stock}}{\text{Current liabilities}}$	$\frac{340,000}{240,000} = 1.42:1$	$\frac{332,000}{440,000} = 0.75:1$
(iii)	**Creditors ratio** $\frac{\text{Average creditors}}{\text{Purchases or cost of sale}} \times 365$	$\frac{180,000}{1,120,000} \times 365 = 59$ days	$\frac{344,000}{1,342,000} \times 365 = 94$ days
(iv)	**Collection period/Receivables Ratio** $\frac{\text{Average debtors}}{\text{Credit sale}} \times 365$	$\frac{310,000}{1,440,000} \times 365 = 79$ days	$\frac{300,000}{1,720,000} \times 365 = 64$ days

(b) Comments on comparative analysis of the two companies.
Based on the ratios computed above:

(i) In terms of working capital and liquidity, Alpha Limited is in a better position to honour its obligations as they fall due because its current ratio and acid test ratio are higher than those of Omega Limited.

(ii) Omega Limited's payment period is better than that of Alpha Limited's because Omega Limited uses supplier's funds to finance its operation.

(iii) Omega Limited's collection period is also better than that of Alpha Limited. It extends shorter credit period to its customers than Alpha Limited.

(iv) Omega Limited's credit policy is better than that of Alpha Limited.

This is because there is 30 days difference between its payments period and collection periods compared with Alpha Limited that had a longer collection period than its payment period.

Answer-4

(i) **Historical**

All information used in ratio analysis is derived from actual historical results. This does not mean that the same results will carry forward into the future. However, ratio analysis can beused on pro forma information and compare it to historical results for consistency.

(ii) **Historical versus current cost**

The information on the income statement is stated in current costs (or close to it), whereas many elements of the balance sheet are stated at historical cost (which could vary substantially from current costs). This disparity can result in unusual ratio results.

(iii) **Inflationary effect**

If the rate of inflation has changed in any of the periods under review, this can mean that the numbers are not comparable across periods. For example, if the inflation rate was 100% in one year, sales would appear to have doubled over the preceding year, when in fact sales did not change at all.

(iv) **Aggregation**

The information in a financial statement line item that is used for a ratio analysis may have been aggregated differently in the past, so that running the ratio analysis on a trend line does not compare the same information through the entire trend period.

ICAP MULTIPLE CHOICE QUESTIONS (MCQs)

Q.1 The acid test also known as quick ratio should include which of the following?

(1) Inventory
(2) Accounts receivables
(3) Bank overdraft
(4) Accruals

(a) (1), (2), (3) and (4)
(b) (1), (2) and (3) only
(c) (1), (2) and (4) only
(d) (2), (3) and (4) only

Q.2 Salik has net current liabilities in its statement of financial position. He has decided to pay off its accounts payables using surplus cash.

What will be the effect of the above transaction on the current ratio?

(a) Decrease
(b) Increase
(c) No effect
(d) The ratio could either increase or decrease

Q.3 Extracts from the statement of Comprehensive Income and statement of financial position of the Huda Limited are shown below:

	Rs.
Revenue from sales (all on credit)	900,000
Cost of goods sold	756,000
Purchases (all on credit)	504,000
Receivables	112,500
Trade payables	75,600
Inventory	333,000

What is the length of the working capital cycle (also known as the operating or cash cycle) to the nearest day?

(a) 170 days
(b) 152 days
(c) 261days
(d) 60 days

Q.4 Which of the following should be included in acid test or quick ratio?

(a) Finished goods inventory
(b) raw materials and consumables
(c) long-term loans
(d) Accounts payable

Q.5 Given below are included in the financial statements of Haris Limited for the year ending 30 June:

	2015 Rs.000	2016 Rs.000
Receivables for disposal of PPE	36	54
Accounts receivables	108	72
	144	126

Sales for the year amounted to Rs.630,000, of which Rs.90,000 were cash sales.
The average receivables turnover (in times) during the year ended 30 June 2016 was?

(a) 7
(b) 6
(c) 5
(d) 4

Q.6 Dawn Limited has provided following information:

	31st December 2014	31st December 2005
	Rs. 000	Rs. 000
Non -current assets	36	61.2
Inventory	18	23.4
Accounts receivable	25.2	19.8
Bank balance	5.4	3.6
Accounts payable	19.8	16.2
Sales on credit	252	216
Purchases on credit	144	108

Which TWO of the following statements are correct?

(a) Net current assets have increased between the two years

(b) The quick (acid test) ratio has improved between the two years

(c) Customers are paying more quickly in 2015 than in 2014

(d) Dawn Limited is paying its suppliers more quickly in 2015 than in 2014

Q.7 Amir sells fish and Abid sells books. Both operate on a 50% mark-up on cost.

However, their gross profit ratios are as follows.

Amir 25%

Abid 33%

The highest gross profit ratio of the bookseller may be because?

(a) There is more wastage with fish stocks than with book stocks

(b) Amir has a substantial bank loan whereas the Abid's business is entirely financed by her family

(c) Amir has expensive high street premises whereas Abid has cheaper back street premises

(d) Amir's turnover is declining whereas that of the Abid is increasing

Q.8 Maira Limited has a current ratio of 2:1.

This ratio will decrease if Maira Limited

(a) Will receive cash in respect of a long-term loan

(b) Will receive cash in respect of a short-term loan

(c) Pays an existing trade-payable

(d) Writes off an existing receivable against the provision for doubtful debts

Q.9 Haris Limited has positive working capital.

What effect will the payment of a declared (payable) dividend using cash balances have upon the current ratio and working capital?

(a) Increase in current ratio and increase in working capital

(b) Increase in current ratio and no effect on working capital

(c) No effect on current ratio and working capital

(d) Decrease in current ratio and decrease in working capital

Q.10 After declaring a final dividend, Kashan Limited has a current ratio of 2.0 and a quick asset ratio of 0.8.

If the company now uses its positive cash balance to pay that final dividend, what will be the effect upon the two ratios?

(a) Increase in current ratio and increase in quick asset ratio
(b) Increase in current ratio and decrease in quick asset ratio
(c) Decrease in current ratio and increase in quick asset ratio
(d) Decrease in current ratio and decrease in quick asset ratio

Q.11 The draft accounts of Super Star Limited for the year ended 31 December 2018 include the following:

Revenue	Rs. 360 million
Gross profit	Rs. 90 million

It was subsequently discovered that the revenue was overstated by Rs.45 million and the closing inventory understated by Rs.15 million.

After correction of these errors the gross profit percentage will be?

(a) 9.5% (b) 19.0%
(c) 23.8% (d) 33.3%

Q.12 The following has been extracted from the financial statements of a business.

SOCI	Rs.	SOFP	Rs.
Profit from operations	86,400	7% debenture	117,000
Debenture interest	(8,190)	Ordinary share capital	171,000
Profit for the year	72,360	Share premium	13,500
		Retained earnings	63,000

What was the return on capital employed (ROCE)?

(a) 19.9% (b) 23.7%
(c) 29.2% (d) 34.9%

Q.13 Waris Limited buys and sells a single product. The following is an extract from its statement of financial position at 31 December 2018.

	2018 Rs.	2017 Rs.
Inventory	75	60
Receivables	24	36

Sales and purchases during 2018 were Rs. 300,000 and Rs. 180,000 respectively. 20% of sales were for cash.

Which TWO of the following are correct?

(a) Average receivables collection period is 37 days
(b) Average receivables collection period is 46 days
(c) Gross profit % is 35%
(d) Gross profit % is 45%

Q.14 A company's gearing ratio would rise if

(a) A decrease in long term loans is less than a decrease in shareholders' funds
(b) A decrease in long-term loan is more than a decrease in shareholders' funds
(c) Interest rates rose
(d) Dividends were paid

Q.15 A business has the following trading account for the year ending 31 May 2018:

	Rs.	Rs.
Sales		450,000
Opening inventory	40,000	
Purchases	260,500	
	300,500	
Less: closing inventory	(60,000)	(240,500)
Gross profit		209,500

Its rate of inventory turnover for the year is?

(a) 4.9 times (b) 5.3 times

(c) 7.5 times (d) 9 times

Q.16 Tara Ltd produces a single product with a margin on sales of 25%.

Total sales for the year	Rs.400,000
Receivables collection period	64 days
Average receivables	Rs.32,000

The value of inventory held during the year was constant.

The cost of credit sales was?

Rs. ________

Q.17 The following are extracts from the financial statements of Laiba Ltd for the year ended 31 December 2018.

Statement of financial position	Rs.000	Statement of Comprehensive Income	Rs.000
Issued share capital	3,600	Operating profit	1,431
Reserves	1,800	Debenture interest	(216)
	5,400		1,215
12% debenture 2018	1,800		
	7,200		

What is the return (%) on long-term funds?

________ %

Q.18 The opening inventory for a business was Rs. 108,000. The closing inventory was Rs.144,000.

Inventory turnover for the year was 10 times.

The gross margin was 30%.

What were the sales for the year?

Rs. ________

Q.19 Adeel Limited has trade payables (creditors) of Rs.12,000 and a bank overdraft of Rs.3,000. Its current ratio is 2.5: 1 and its quick (acid test) ratio is 1.5:1.

What is the value of its inventory (stock)?

Rs. ________

Q.20 Extracts from statement of financial position of Turab Limited at 31 March 2019 are presented below:

	Rs.000
Loans due in more than one year	32
5% loan notes	24
Ordinary shares - Rs.1 each fully paid	80
6% redeemable preferred shares, Rs.1 each fully paid	16
Retained profits	104
Revaluation reserve	40

The gearing ratio is (to one decimal place)?

__________%

Q.21 Which ratio is considered as safe margin of solvency?

(a) Liquid ratio (b) Quick ratio
(c) Current ratio (d) Net profit ratio

Q.22 Liquid ratio is also known as

i. Quick ratio
ii. Acid test ratio
iii. Working capital ratio
iv. Stock turnover ratio

(a) i. and ii. (b) i. and iii.
(c) iii. and iii. (d) iii. and iv.

Q.23 Care pharmacy Ltd. has a current ratio equal to 1.6 and a quick ratio equal to 1.2. The company has Rs.200 million in sales and its current liabilities are Rs.10 million. what is the value of company's current assets?

(a) Rs.14 million (b) Rs.16 million
(c) Rs.18 million (d) Rs.20 million

Q.24 Determine working capital turnover ratio if, current assets is Rs.150 million, current liabilities is Rs.100 million and Sales during the year are Rs.500 million.

(a) 5 times (b) 10 times
(c) 15 times (d) 20 times

Q.25 A debtor turnover ratio of 12 times means that:

(a) One-twelfth of debtors will turn out to be bad debts
(b) Debtors are about twelve times as big as creditors
(c) In any given month, twelve debtors are expected to pay in full
(d) The average debtor takes about one month to pay.

Q.26 What is the impact of collection of debtors on the current ratio;

(a) Increase (b) Decrease
(c) No impact (d) None of the above

Q.27 Which of the following is not included in the computation of acid test ratio?

(a) Debtors (b) Cash at bank
(c) Short-term investments (d) Stock

Q.28 Determine inventory turnover ratio if, opening inventory is Rs.31 million, closing inventory is Rs.29 million, sales are Rs.320 million and gross profit margin is 25%.

(a) 6 times
(b) 8 times
(c) 11 times
(d) 16 times

Q.29 Debt-equity ratio is a sub-part of

(a) Short-term solvency ratios
(b) Long-term solvency ratios
(c) Debtors turnover ratios
(d) None of the above

Q.30 Night Limited has a current ratio of 1.8. This ratio will increase if Night Limited:

(a) receives cash in respect of a short term loan
(b) receives cash from an existing receivable
(c) pays an existing trade payable
(d) purchases inventory on credit

Q.31 Night Limited has a current ratio of 1.8. This ratio will increase if Night Limited:

(a) receives cash in respect of a short term loan
(b) receives cash from an existing receivable
(c) pays an existing trade payable
(d) purchases inventory on credit

Q.32 A company has current ratio and quick ratio of 2.0 and 0.8 respectively. If the company uses its positive cash balance to pay a creditor, it will:

(a) increase current ratio as well as quick ratio
(b) increase current ratio and decrease quick ratio
(c) have no effect on current ratio as well as quick ratio
(d) decrease current ratio as well as quick ratio

Q.33 Which of the following would increase gearing ratio?

(a) Issuance of shares at premium
(b) Issuance of shares at discount
(c) Issuance of bonus shares
(d) Declaration and payment of cash dividend

Q.34 Night Limited has a current ratio of 1.8. This ratio will increase if Night Limited:

(a) receives cash in respect of a short term loan
(b) receives cash from an existing receivable
(c) pays an existing trade payable
(d) purchases inventory on credit **[Autumn 2019] (01)**

Q.35 A debtor turnover of 6 times means that:

(a) one-sixth of the debtors are collected in one month
(b) average debtors are collected in 6 months
(c) average debtors are collected in 2 months
(d) average debtors are collected 2 times in a year **[Autumn 2019] (01)**

Q.36 A company has current ratio and quick ratio of 2.0 and 0.8 respectively. If the company uses its positive cash balance to pay a creditor, it will:

(a) Increase current ratio as well as quick ratio
(b) Increase current ratio and decrease quick ratio
(c) Have no effect on current ratio as well as quick ratio
(d) Decrease current ratio as well as quick ratio **[Autumn 2020] (01)**

Q.37 Which of the following would increase gearing ratio?

(a) Issuance of shares at premium

(b) Issuance of shares at discount

(c) Issuance of bonus shares

(d) Declaration and payment of cash dividend

[Autumn 2020] (01)

ICAP MULTIPLE CHOICE QUESTIONS (MCQ) SOLUTIONS

A.1 (d) Acid test ratio is calculated as (current assets - inventory) / current liabilities

A.2 (a) Assume initially that Salik has assets of Rs.100,000 and liabilities of Rs.150,000

Its current ratio prior to the transaction will be: Rs.100,000/Rs.150,000 = 0.67

If it then pays its trade payables by Rs.50,000 the current assets will be Rs.50,000 and the liabilities Rs.100,000.

Hence the new current ratio is 50,000/100,000 = 0.50, i.e. a decrease.

A.3 (b)

	Days
Inventory turnover: 333/756× 365	161
Average collection period: 112.5/900 × 365	46
Average time to pay: 75.6/504× 365	(55)
	152

A.4 (d) The acid test ratio excludes all inventory balances, and is based on short-term creditors only.

A.5 (b) Credit sales = 630,000 – 9,000 = Rs.540,000

Average receivables = (72000 + 108000)/2 = 90,000

Receivable turnover = 540,000/ 90,000 = 6 times

A.6 (a & c)

		2014		2015
Net current assets	(18 + 25.2 + 5.4 – 19.8)	28.8	(23.4+19.8+ 3.6 – 16.2)	30.6
Quick ratio	(25.2 + 5.4)/19.8	1.55	(19.8 + 3.6)/16.2	1.44
Collection period	(25.2 /252) × 365	36.5 days	(19.8/216) × 365	33.5 days
Payment period	(19.8/144) × 365	50.2 days	(16.2/108) × 365	54.8 days

A.7 (a) Cost plus 50% is equivalent to a gross profit ratio of 33%. Amir's gross profit margin may be low because of wastage.

The loan interest and rental would not affect gross profit (only affects net profit) and declining turnover would not directly affect the gross profit percentage.

A.8 (b) Receiving cash for a long-term loan increases current assets with no change in current liabilities, hence improves the ratio. Payment on an existing creditor improves the ratio.

Writing off a receivable against a provision has no effect on current assets.

Therefore receiving cash in respect of a short-term loan must be the correct choice.

Thus, suppose current ratio is 2:1, that means assets 100,000 and current liabilities 50,000

Now say Maira Limited receives loan = Rs.50,000

Current assets will be 100,000 + 50,000 = 150,000

Current liabilities 50,000 + 50,000 = 100,000

New Current ratio 1.5:1

A.9 (b) Before payment of proposed dividend

	Rs.
Current assets	150,000
Current liabilities including proposed dividend Rs.30,000	50,000
Current ratio	3:1
Working capital	100,000

After payment of proposed dividend

	Rs.
Current assets	120,000
Current liabilities	20,000
Current ratio	6:1
Working capital	100,000

A.10 (b) Suppose that inventories are Rs.120,000, cash plus receivables are Rs.80,000 and creditors (including a Rs.10,000 dividend) are Rs.100,000.

Payment of the dividend will cause cash plus receivables to fall to Rs.70,000 and creditors to fall to Rs.90,000.

The current ratio will increase to 2.11 (190 ÷ 90).

The quick ratio will decrease to 0.77 (70 ÷ 90).

A.11 (b)

	Rs.m	Rs.m
Turnover	360-45	315
Cost of sales	270-15	(255)
Gross profit		60

Gross profit % =60/315= 19.0%

A.12 (b) ROCE = 86,400/364,500= 23.7%

A.13 (b) & (d)

Credit sales = Rs.300,000 x 80% = Rs.240,000

Average receivables = Rs.(24,000 + 36,000)/2 = Rs.30,000

Receivables' turnover = Rs.240,000/Rs.30,000 = 8

Collection period = 365/8 = 46 days

	Rs.000	%
Sales	300	100
Cost of sales (60+180-75)	(165)	55
Gross profit	135	45

A.14 (a)

A.15 (a) Inventory turnover = COS/ average inventory

= 240,500 / [(40,000 + 60 ,000)/2 = 4.9 times

A.16 Rs.136,875

Receivables of Rs.32,000 represent 64 days' credit sales.

Therefore, receivables of Rs.182,500 would represent 365 days' credit sales. [32,000 x 365/64]

Cost of credit sales = Rs.182,500 x 75% = Rs.136,875

A.17 19.88%. Return on long-term funds = Operating profit (before debenture interest) /(Share capital + Reserves + Debentures)

=1,431/7,200

= 19.88%

A.18 Rs.1,800,000

Inventory turnover = CGS/ average inventory

CGS = average inventory × inventory turnover

= ((108,000 + 144,0000)/2) × 10

= 126,000x10 = Rs.1,260,000

Sales = Rs.1,260,000 / 0.7 = Rs.1,800,000

A.19 Rs.15,000

Current ratio = Current assets / current liabilities

Current assets = Current ratio × Current liabilities

= 2.5 × (Rs.12,000 + Rs.3000) = Rs.37,500

Quick ratio = (C.A – inventory) / C.L

C.A – inventory = Quick ratio × C.L

Rs.37,500 – inventory = 1.5 × 15,000

Rs.37,500 – inventory = Rs.22,500

Inventory = Rs.15,000

A.20 24.3 % Debt = 32 + 24 + 16 = 72

Equity = 80 + 104 + 40 = 224

Gearing = 72/(72 + 224) = 24.3 %

A.21 (c)

A.22 (a)

A.23 (b)

A.24 (b)

A.25 (d)

A.26 (c)

A.27 (d)

A.28 (b)

A.29 (b)

A.30 (c) Pays an existing trade payable

A.31 (c) Average debtors are collected in 2 months

A.32 (b) increase current ratio and decrease quick ratio

A.33 (d) Declaration and payment of cash dividend

A.34 (c) pays an existing trade payable

A.35 (c) average debtors are collected in 2 months

A.36 Option b: Increase current ratio and decrease quick ratio

A.37 Option d: Declaration and payment of cash dividend


CABLES

Accounting for Not-for-Profit Organizations

12

LO1	OBJECTIVE OF NON-PROFIT ORGANIZATION AND DIFFERENCES WITH PROFIT MAKING ORGANIZATION
LO2	PREPARATION OF INCOME AND EXPENDITURE ACCOUNT
LO3	PREPARATION OF RECEIPT AND PAYMENT ACCOUNT
LO4	MAIN SOURCES OF REVENUE
LO5	OTHER SOURCE OF REVENUE
LO6	ACCOUNTING STANDARD FOR NOT-FOR-PROFIT ORGANISATIONS (ASNPO)
LO7	ASNPO: CONTRIBUTION REVENUE AND RECEIVABLE
LO8	ASNPO: INVENTORIES AND NON-CURRENT ASSETS
LO9	ASNPO: PREPARATION OF FINANCIAL STATEMENTS

LO1: OBJECTIVE OF NON-PROFIT ORGANIZATION AND DIFFERENCES WITH PROFIT MAKING ORGANIZATION

Till now, we have learnt the accounting of organisations whose objective is to earn profit, now we move to the accounting of those organisations whose objective is not to earn the profit rather they work for the welfare of society, poor etc.

Edhi Welfare Trust is a typical example where donation received from various people is used to help the needy. Sometimes young people in a society open up a library or sports club for the benefit of people living in that locality. You may find a hospital or clinic in a town for the check-up of poor and needy.

Differences among profit and non-profit organization

	Profit making Organisation	Non-profit Organisation
1.	Statement of comprehensive income	Statement of Income and Expenditure
2.	Calculates Profit/(loss)	Calculates Surplus/(Deficit)
3.	Capital	General fund/ Fund/ Accumulated fund
4.	There is an owner of business	There is no owner of business
5.	Owner may withdraw money at any time	There is no concept of drawings
6.	Cash book	Receipt and payment account
7.	Statement of changes in equity	Statement of changes in net assets

LO2: PREPARATION OF INCOME AND EXPENDITURE ACCOUNT

It is similar to the profit and loss account prepared by a profit making organisations. By deducting the expenses from incomes the resultant figure is surplus or deficit.

The main sources of revenue of these organizations are subscriptions, admission fees, donations and government or other grants.

LO3: PREPARATION OF RECEIPT AND PAYMENT ACCOUNT

A Receipt and Payments Account is a summary of the Cash Book. It gives the opening cash and bank, the receipts and payments in cash or by cheque during an accounting period and the resultant balance of cash and bank at the end of the accounting period. All the receipts and payments (whether in cash or cheque) are shown on the debit side, and all payments (whether in cash or cheque) are shown on the credit side.

LO4: MAIN SOURCES OF REVENUE

i) **Donations**

Donation received by non-profit organization can be of two types:

a) For general purpose
b) For specific purpose

a) **General Purpose**

A donation which is appearing on the receipt side of receipt and payment account and against which no detail is provided it will be taken to income. Following journal entry will be passed:

Particulars	;	Cr.
Cash	xxx	
Donation Income		xxx

b) **For Specific Purpose**

It can further be divided in two types:

i) **Donations to purchase/construct fixed assets**

If the donor donating the amount imposes a condition that the amount will be used to construct/ acquire a fixed asset then we will create a

liability in our books to construct a fixed asset in future in an account styled "specific fund account".
By the time the asset is constructed it will be debited to asset a/c.

Example
A Social Club has received donation from one of its prestigious client for the purpose of construction of new building. The amount of Rs. 900,000 is received on April 1, 2010. The building work started immediately and an expense of Rs. 200,000 is incurred during the year ended December 31, 2010.
Pass the necessary journal entries for Y.E. 31.12.2010.

Journal entries

Date	Particulars	Dr.	Cr.
April 1, 2010	Cash Building Fund (On receipt of donation for specific purpose)	900,000	900,000
31.12.2010	Building Cash (On incurring cost on building)	200,000	200,000

Dr. Building Fund Account Cr.

2010	c/d	900,000	Cash	900,000

The closing balance will appear on liability side.

ii) **Donations to meet a specific expense**
If the person donating amount imposes a condition that the amount will be used to meet a specific expense then it will be credited to the specific fund account (liability to incur expense in future is increased). As and when the expense is incurred the fund account will be debited (liability to incur expense is decreased).

Example
A Medical Society has received donation of Rs. 300,000 on February 1, 2012 from one of its prestigious client for the purpose of meeting certain welfare expenditures. Rs. 100,000 has been expanded in 2012 and the remaining has been incurred in 2013.
The year end is December 31.
Pass the necessary journal entries

Journal entries

Date	Particulars	Dr.	Cr.
February 1, 2012	Cash Welfare Fund (On receipt of donation for meeting expenses)	300,000	300,000
2012	Welfare Fund Cash (On incurring expenses)	100,000	100,000
2013	Welfare Fund Cash (On incurring expenses)	200,000	200,000

Dr. Welfare Fund Account Cr.

2012	Cash c/d	100,000 200,000	Cash	300,000
2013	Cash c/d	200,000 -	b/d	200,000

Note: Sometimes as per question requirement donation net of expenses is to be taken to income. This will be the case normally when activity is completed in the same year in which donation is received.

Specific fund from own sources

Example

A social club in a small town has managed to accumulate a significant balance on its accumulated fund over the years.
Its members have decided that the club should establish a fund to contribute to the school fees of children of high promise from the town. Parents of such children would apply to the club for a grant of Rs.50,000. Rs. 1,500,000 is to be set aside for this purpose.
What journal entries would be required?

Answer

This would be accounted for as follows:

Setting up the fund

Dr.	Accumulated fund	1,500,000	
	Cr. Special fund (Education fund)		1,500,000

On the award of a grant

Dr.	Special fund (Education fund)	50,000	
	Cr. Cash		50,000

ii) **Subscriptions**

It is membership fee paid by the members to avail the services of non-profit organisation. This is the main source of revenue of all non profit organizations.
Subscription account appears as follows:

Dr. Subscription account Cr.

opening receivable	xxx	opening advance	Xxx
I and E (bal.)	xxx	Cash and Bank	xxx
closing advance	xxx	closing receivable	xxx
	xxx		xxx

Practice Questions for subscription account

Question -1

i)	Subscriptions received during the year 2002	Rs. 7,000
ii)	Subscriptions outstanding at the beginning of 2002	Rs. 1,400
iii)	Subscriptions outstanding at the closing of 2002	Rs. 1,600

Calculate the amount of subscriptions to be credited to Income and Expenditure Account for the year 2002.

Question -2

Calculate the amount of subscriptions to be credited to Income and Expenditure Account for the year 2002.

		Rs.
i)	Subscriptions received during 2002	12,000
ii)	Subscriptions received in advance for 2003	1,600
iii)	Subscriptions outstanding at the beginning of 2002	2,000
iv)	Subscriptions outstanding at the closing of 2002	700

Question -3

Mr. Flier, the treasure of Fly-High Club for the accounting year April 2002 to March 2003, submits the following data for membership fees.

i) Cash/cheque received in the year totaled Rs. 100,000.

ii) As on 1.4.2002, Rs. 2000 was in arrears for 2001-02 (but cleared by 31.3.2003) and Rs. 800 was received by the previous year's treasurer for Mr. Flier.

iii) Mr. Flier received Rs. 1,500 towards the next year's fees, but has yet not recovered Rs. 1,700 from his current year's members.

Show the final subscriptions income of the year 2002-03.

Question-4

Calculate the amount of subscriptions to be credited to Income and Expenditure Account for the year ended December 31, 2002.

		Rs.
i)	Subscriptions received during 2002	15,000
ii)	Subscriptions outstanding at the end of 2001	2,000
iii)	Subscriptions received in advance on 31st December 2001	1,000
iv)	Subscriptions received in advance on 31st December 2002	3,000
v)	Subscriptions outstanding on 31st December 2002	5,000

Question-5

Prepare an account showing subscriptions received in 2002-03 as per Receipts and Payment Account.

		Rs.
i)	Subscriptions Income for 2002-03 as per Income and Expenditure Account	82,000
ii)	Advance subscriptions received in 2001-02	4,000
iii)	Subscriptions outstanding at the end of 2002-03 including Rs. 1,000 for 2001-02	9,500
iv)	Advance subscriptions received for 2003-04	2,000
v)	Subscriptions written-off during 2002-03	500
vi)	Subscriptions receivable on 1.4.2002	5,000

Year ended March 31.

Question-6

The following information was obtained from the Secretary of the Crazy Jay Club:

	Rs.
Subscriptions received in 2002-03 as per Receipts and Payments Account	89,000
Advance subscriptions received in 2001-02	5,000
Subscriptions outstanding at the end of 2002-03 (including Rs. 1,500 for 2001-02)	12,500
Advance subscriptions received for 2003-04	3,000
Subscriptions written-off during 2002-03	600
Subscriptions receivable on 1.4.2002	8,400

Prepare account showing the Subscriptions Income for the year ended 31.3.2003.

Question-7

Anderson Club has 300 annual members in the annual general meeting held on 31st December, 2001, it was decided to raise the subscriptions from the current Rs. 200 p.a. to Rs. 300 p.a. from the year 2002. The members who have paid in advance will be allowed subscriptions at the old rates.

Subscriptions received in advance on 31.12.2001 was Rs. 2,000 and subscriptions in arrear on 31.12.2001 was Rs. 3,000

Subscriptions in arrear on 31.12.2001 were received during 2002 with the exception of those due from 5 members.

Subscriptions in arrear for the year 2002 are in respect of 15 members.
You are required to prepare Subscriptions Account for the year 2002 and calculate the amount of subscriptions received in cash during the year 2002.

Answer-1

Subscription account

Dr.			Cr.
Opening Receivable	1,400		
Income & Expenditure (bal.)	7,200	Cash	7,000
		Closing receivable	1,600

Answer-2

Subscription account

Dr.			Cr.
Opening Receivable	2,000	Opening Advance	-
Income & Expenditure (bal.)	9,100	Cash	12,000
Closing Advance	1,600	Closing receivable	700

Answer-3

Subscription account

Dr.			Cr.
Opening Receivable	2,000	Opening Advance	800
Income & Expenditure (bal.)	99,000	Cash/Bank	100,000
Closing Advance	1,500	Closing receivable	1,700

Answer-4

Subscription account

Dr.			Cr.
Opening receivable	2,000	Opening advance	1,000
I and E (Bal.)	16,000	Cash	15,000
closing advance	3,000	closing receivable	5,000

Answer-5

Subscription account

Dr.			Cr.
Opening receivable	5,000	Opening advance	4,000
I and E	82,000	Cash (bal.)	75,000
		Bad debt	500
closing advance	2,000	closing receivable	9,500

Answer-6

Subscription account

Dr.			Cr.
Opening receivable	8,400	Opening advance	5,000
I and E (bal.)	95,700	Cash	89,000
		Bad debt	600
closing advance	3,000	closing receivable	12,500

Answer -7

Subscription account

Dr.			Cr.
Opening Receivable (15 × 200)	3,000	Opening Advance (200 × 10)	2,000
Income & Expenditure	89,000	Cash (bal.)	84,500
		Closing receivable	
		- 2001 (5 × 200)	1,000
		- 2002 (15 × 300)	4,500
Closing Advance	-		

Total members 300

Subscription income

Members paid in advance	(10 × 200)	2,000
Other members	(290 × 300)	87,000
		89,000

LO5: OTHER SOURCES OF REVENUE

i) **Entrance fees**

In addition to the membership fees the new members upon entrance have to pay the entrance fee. This fee is usually included in the income of the organization for the year in which it is received. However it may also be decided by the organization to credit it to general fund. Commonly the entry for this is as follows:

Particulars	Dr.	Cr.
Cash	XXX	
Entrance fee Income		XXX

ii) **Legacy**

When any thing is given away personally, it is called gift. When any gift is made by a will, it is termed as legacy. It is generally credited to general fund account in the year of receipt treating it as capital receipt.

Commonly the entry for this is as follows:

Particulars	Dr.	Cr.
Cash	XXX	
General Fund		XXX

iii) **Profit from trading activity**

Sometimes to meet the expenses non-profit organization opens up a bar shop etc. For this student should always prepare a trading account showing separately the profit from trading operations.

Opening stock, closing stock appearing in the question is an indication that the non-profit organization is involved in a trading activity.

For trading activity **always** prepare the following working:

Profit from trading activity

Revenue			XXX
Less:	Cost of sales		
	Opening stock	XXX	
	Purchases (Note)	XXX	
	Direct wages	XXX	
	Other direct expenses	XXX	
	Less: Closing Stock	(XXX)	(XXX)
Profit			XXX

(Note) For calculating purchases figure always prepare creditors account if opening closing balances of creditors are appearing in the question.

iv) **Service activities in a non-profit organization**

Sometimes a non-profit organization starts charging a nominal fee for the rendering of services.

a) Normally the revenue earned through service activity will be appearing on the receipt side and no related expenses will be appearing on the payment side. In this case the whole receipt will be shown in income.

Examples

1. **Hospital**
   - OPD charges
   - X-Ray charges
   - Laboratory charges
   - In-patient billing

2. Sports club
- Billiard takings
- Billiard room
- Bowling Green
- Green fees
- Card and billiard room receipt
- Swimming pool
- Tennis court receipt

3. Library
- Charges for book reading

b) In other cases revenue earned through service activity will be appearing on the receipt side and related expense will be appearing on the payment side. In such cases you should net the revenues with expenses by showing the net figure on the income side.

Activity	Revenues	Expenses
Charity show	Charity show proceeds	Charity show expenses
Competition	Games competition receipts	Competition prizes
Annual dinner	Annual Dinner - Sale of Tickets	Annual Dinner-Expenses
Club activities	Contribution to Club activities Net proceeds (Club activities)	Club activities expenses Remuneration to Club coach

Following statements given in question shows that net figure is to be taken to income.
- Separate books/accounts/records are kept for service activity
- Show profit arising from service activity separately

For this always calculate the profit through following working:

Revenue	xxx
Less: All Direct costs	(xx)
Profit	xxx

v) **Interest or gain on disposal of investments**

a) Interest on investments

Example

A non-profit organization purchased investments/ Defence Saving certificates/ National Saving certificates/ Post office Saving Certificates/ Term Deposit certificates/ shares of a company by paying Rs. 200,000 on March 1, 2010. The interest received on above investments on December 31, 2010 amounted to Rs. 30,000.

Pass journal entries

Journal entries

Date	Particulars	Dr.	Cr.
March 1, 2010	Investments Cash (On investing money)	200,000	200,000
December 31. 2010	Cash Interest income (On earning interest)	30,000	30,000

b) **Gain on sale of investments**

Example

Continuing from example in point (a) previously, assume the investments were sold for Rs. 240,000 on June 30, 2011. The interest earned for the 6 months amounted to Rs. 13,000. Pass journal entries.

Journal entries

Date	Particulars	Dr.	Cr.
June 30, 2011	Cash Interest income (On earning interest)	13,000	13,000
June 30, 2011	Cash I and E (bal.) Investments (On withdrawing investments)	240,000	40,000 200,000

vi) **Life membership**

Instead of paying annual subscription, by paying life membership amount a person becomes member for whole of the life.

Example

A non-profit organization received Rs. 1,000,000 each from 2 life members in 2012. Year end is December 31. Prepare the necessary entries for 2012 and 2013 under following scenarios:

1. Recognize it as income when it is received.
2. Recognize as income over a period of 5 years.
3. Recognize it as equity reserve assuming 1 member passed away in 2013.

Option-1

Date	Particulars	Dr.	Cr.
2012	Cash Life membership Income (On joining of 2 members)	2,000,000	2,000,000

Option-2

Date	Particulars	Dr.	Cr.
1.1.2012	Cash Deferred Income (On joining of 2 members)	2,000,000	2,000,000
31.12.2012	Deferred Income Life membership Income (2,000,000/5)	400,000	400,000
31.12.2013	Deferred Income Life membership Income (2,000,000/5)	400,000	400,000

Option-3

Date	Particulars	Dr.	Cr.
1.1.2012	Cash Life-membership Fund (On joining of 2 members)	2,000,000	2,000,000
2013	Life-membership Fund General Fund (On death of 1 member)	1,000,000	1,000,000

Common mistake by students

While calculating the opening balance of fund they ignore the opening balance of cash and bank balance given in the receipt and payment account.

106: ACCOUNTING STANDARD FOR NOT-FOR-PROFIT ORGANISATIONS (ASNPO):

The Institute of Chartered Accountants of Pakistan (ICAP) issued the 'Accounting Standard for Not-for-Profit Organisations' and as per Securities and Exchange Commission of Pakistan's (SECP) directives, ASNPO is applicable to associations not-for-profit registered under the Companies Act, 2017.

An NPO that is registered under the Companies Act, 2017 is also required to comply with the presentation and disclosure requirements of the Fifth Schedule of the Companies Act, 2017. ASNPO is applicable so far as not in conflict with the provisions of the Companies Act, 2017.

Primary sources: basis of accounting

An NPO applying ASNPO will also apply the primary source of how to account and report transactions and events. The primary source of how to account and report transactions and events in financial statements will vary according to the class of the NPO.

When the concepts contained in ASNPO, conflict with a primary source, the requirements of the primary source shall prevail.

It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events encountered by the NPO or when additional guidance is needed to apply a primary source to specific circumstances.

Applicable financial reporting framework (primary source)

The primary source for public interest entities and large sized NPOs is IFRS issued by International Accounting Standards Board (IASB) and as notified by SECP.

The primary source for medium and small sized NPOs is International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) issued by IASB and as notified by SECP.

Micro NPOs (defined in ASNPO as organisations not registered under Companies Act, 2017 with annual gross revenue less than Rs. 25 million) may opt to prepare their accounts on cash and disbursement basis.

Accounting policies

An NPO selects and applies its accounting policies for a period consistently for similar transactions, other events and circumstances.

Accounting treatments that are not in accordance with ASNPO are not rectified either by disclosure of the accounting policies used or by information provided in notes or supporting schedules.

Recognition and measurement

Recognition criteria

The recognition criteria under ASNPO are as follows:

- the item has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and
- for items involving obtaining or giving up economic benefits, it is probable that such benefits will be obtained or given up.

The recognition criteria provide general guidance on when an item is recognized in the financial statements. Professional judgment is required to consider the specific circumstances to identify whether any particular item is recognized or not.

Revenue	Revenues are generally recognized when performance is achieved and reasonable assurance regarding measurement and collectability of the consideration exists.
Unrestricted contributions	Unrestricted contributions to NPO do not normally arise from the sale of goods or the rendering of services and, consequently, performance achievement is generally not relevant to the recognition of unrestricted contributions; such revenues are generally recognized when received or receivable.
Restricted contributions	Restricted contributions are recognized based on the nature of the relatedrestriction.
Gains	Gains are generally recognized when realized.
Expenses and losses	Expenses and losses are generally recognized when an expenditure or previously recognized asset does not have future economic benefit. Expenses are related to a period on the basis of transactions or events occurring in that period or by allocation applying the matching concept.

Measurement

Financial statements of NPOs are prepared primarily using the historical cost basis of measurement whereby transactions and events are recognized in financial statements at the amount of cash or cash equivalents paid or received or the fair value ascribed to them when they took place.

Financial statements are prepared with capital maintenance measured in financial terms and with no adjustment being made for the effect on capital of a change in the general purchasing power of the currency during the period.

Financial statements

Financial statements of NPO shall normally include:

- statement of financial position (or balance sheet)
- statement of income and expenditure
- statement of changes in net assets
- statement of cash flows.

Notes to financial statements and supporting schedules to which the financial statements are cross-referenced are an integral part of such statements; the same does not apply to information set out in other material attached to or submitted with financial statements.

Alternative titles of financial statements may be used in a manner that results in fair presentation.

Comparative information

Financial statements shall be prepared on a comparative basis, unless the comparative information is not meaningful. Comparative information is normally meaningful. However, this may not be the case in some rare circumstances, such as when the financial structure of the NPO has significantly changed.

Fund accounting

Fund accounting comprises the collective accounting procedures resulting in a self-balancing set of accounts for each fund established by legal, contractual or voluntary actions of an NPO. Elements of a fund can include assets, liabilities, net assets, revenues and expenses (and gains and losses, where appropriate). Fund accounting involves an accounting segregation, although not necessarily a physical segregation, of resources

Net assets or fund balances may be internally or externally restricted. Internally restricted net assets or fund balances are often referred to as reserves or appropriations.

Endowment fund

An endowment fund is a self-balancing set of accounts which reports the accumulation of endowment contributions. Only endowment contributions and investment income subject to restrictions stipulating that it be added to the principal amount of the endowment fund would be reported as revenue of the endowment fund.

Allocations of resources to the endowment fund that result from the imposition of internal restrictions are recorded as inter-fund transfers.

Restricted fund

A restricted fund is a self-balancing set of accounts the elements of which are restricted or relate to the use of restricted resources. Only restricted contributions, other than endowment contributions, and other externally restricted revenue would be reported as revenue in a restricted fund.

General fund / unrestricted fund

A general fund is a self-balancing set of accounts which reports all unrestricted revenue and restricted contributions for which no corresponding restricted fund is presented. The fund balance represents net assets that are not subject to externally imposed restrictions.

Example: Types of funds

Consider the following independent circumstances:

(a) A professional body of accountants (the NPO) sets-up a fund for financial support of deserving students. For this purpose, Rs. 100 million have been allocated that will be invested and 80% of the investment income shall be used for student support and 20% of investment income shall be added to fund investments. The fund investments shall not be available for use by the NPO for its operations and the NPO shall preserve the principal amount of fund.

(b) A healthcare NPO has raised money through special marketing drive in which overseas contributors deposited $100 each in its 'Save a life fund' account. The contributions shall be used for the NPO's routine operations which focuses on providing life-saving drugs to patients who cannot afford the cost.

(c) A educational NPO has set-up a fund for development of new school in nearby rural area. The fund-raising drive has been successful as many people have contributed for the cause. The fund-raising clearly stated that the funds so raised shall only be used for construction and operations of school at that specific location.

Required:

Identify the type of above funds.

Answer:

(a) Endowment fund

(b) General fund

(c) Restricted fund

LO7: ASNPO: CONTRIBUTION REVENUE AND RECEIVABLE

Contribution

Contributions can come from many sources, including individuals, corporations, governments and other NPOs. Contributions include contributions receivable that meet the criteria for recognition in the financial statements.

Restrictions

Restrictions (explicit or implicit) on contributions may only be externally imposed.

Types of contribution

Restricted contribution	A restricted contribution is a contribution subject to externally imposed stipulations that specify the purpose for which the contributed asset is to be used.
Endowment contribution	An endowment contribution is a type of restricted contribution subject to externally imposed stipulations specifying that the resources contributed be maintained permanently, although the constituent assets may change from timeto time.
Unrestricted contribution	An unrestricted contribution is a contribution that is neither a restricted contribution nor an endowment contribution.

Example : Types of contributions

Consider the following independent circumstances:

(a) A healthcare NPO received Rs. 10 million from wealthy individuals subject to the condition that this amount shall only be used for acquisition of land for construction of a hospital in a specific village.

(b) A healthcare NPO received Rs. 25 million contribution from a wealthy individual in the year 20X2. The sole purpose of the amount is to support the NPO's general operations in the year 20X4 and 20X5.

(c) A educational NPO received a plot of land from Mr. Salman subject to the condition that this land shall only be used for construction of a primary education school to be run by that NPO. The fair value of this plot of land is Rs. 12 million.

(d) A educational NPO received a plot of land from Mr. Jamal subject to the condition that this land or sale proceeds from its disposal shall only be used to achieve general objectives of that NPO. The fair value of this plot of land is Rs. 15 million.

(e) An educational NPO received Rs. 50 million from alumni donors subject to the condition that the principal balance shall be invested as per specified investment policy and NPO cannot use the principal balance to fund operations. However, the NPO can utilise the investment earnings to pay for things such as academic programs or building new school facilities.

Required:

Identify the type of contributions in above circumstances.

Answer:

(a) Restricted contribution

(b) Restricted contribution

(c) Restricted contribution

(d) Unrestricted contribution

(e) Endowment contribution

Revenue recognition

Revenue from contributions is recognised by following either restricted fund method or deferral method. An NPO is required to select one method and apply it consistently over the periods and any change from one method to the other shall be treated as change in accounting policy.

Contribution receivable

Recognition

A contribution receivable should be recognized as an asset when it meets the following criteria:

- the amount to be received can be reasonably estimated; and
- ultimate collection is reasonably assured.

Pledge

A pledge is a promise to contribute cash or other assets to an NPO. Similar to any other contribution receivable, an uncollected pledge would only be recognized:

- if it meets the above recognition criteria;
- there is reasonable assurance that the NPO will comply with conditions, if any, attached to the contribution; and
- contribution is not dependant on any contingent event outside NPO's control.

Bequest

Bequests are often subject to considerable uncertainty surrounding both the timing of the receipt and the amount that will actually be received. In many cases, the recognition criteria will not be satisfied and the bequest will not be recognized until it is received.

Membership fee

Many NPOs receive membership fees. Such fees are considered fees for services when members receive services having a value commensurate with fees paid. In other cases, membership fees may be in substance contributions.

An NPO would decide whether its membership fees are contributions or fees for services and account for them accordingly on a consistent basis. Some membership fees have characteristics of both fees for services and contributions. Such fees would be divided into the portion that relates to fees for services and the portion that is in substance a contribution.

Example : Membership fee

ABC Golf Club is members only club providing its members with sports facilities in the grounds owned and maintained by it against annual subscription fee.

At 30 June 20X2, the club had membership subscriptions in arrears amounting to Rs. 48,000,000 and had received Rs. 12,000,000 in advance.

During the year to 30 June 20X3, the club received Rs. 650,000,000 from its members. This amount includes:

- Rs. 26,000,000 received as donation from members (no conditions attached).
- Rs. 31,200,000 received for membership fee for the year to 30 June 20X4. At 30 June 20X3, members owed Rs. 19,200,000 of subscriptions.

Half of the members who were in arrears at the end of the previous period still had not paid by 30 June 20X3. It was decided to write these amounts off.

Required:

How the revenue from above should be reported in financial statements of ABC Golf Club for the year ended on 30 June 20X3?

Answer:

The donation of Rs. 26 million received shall be recognised as contribution revenue separately from fee for services to members.

The subscription income (fee for services) may be calculated as follows:

Subscription income

	Rs.		Rs.
b/d	48,000,000	b/d	12,000,000
I&E	600,000,000	Cash (Rs. 650m – 26m)	624,000,000
		Bad debts (Rs. 48m x 50%)	24,000,000
c/d	31,200,000	c/d	19,200,000
	679,200,000		**679,200,000**

The subscription income may be reported in statement of income and expenditure at Rs. 600million (gross basis) or at Rs. 576 million (net of bad debts expense).

Government funding

Certain types of government funding are calculated and paid as if they were fees for services. However, because the services being funded are provided to the NPO's community of service, and not directly to the government funder, government funding is considered to be a contribution.

Government funding is a significant component of many NPOs' total contributions. Restrictions ongovernment funding may be indicated by following factors:

- the fact that the funding is provided based on the NPO's approved operating budget.
- the requirement to report to the government funder as to how the resources were actuallyused.
- the funding left over at the end of the period must be returned to the government funder.
- the funding received relates to expenses of the future period being funded.

Example : Government funding

Mujahid Healthcare (MH) is a registered NPO. It has received government funding of Rs. 20 million for which it has to provide vaccine (dosage and administration) for a viral disease to general public (8,000 dosages x Rs. 2,500 each) without taking any fee from them.

Required:

Discuss the accounting treatment of above from perspective of

Answer:

The amount of Rs. 20 million is being calculated on dosage basis (i.e. 8,000 dosages x Rs. 2,500) which might indicate that Rs. 20 million should be recognised as fee-for-services in statement of income and expenditure.

However, since the service is not being provided to government but rather to MH's community of service (i.e. general public to whom they provide healthcare services), the government funding of Rs. 20 million shall be considered as contribution.

Further, since the purpose of government funding is specified, it shall be considered as restricted contribution.

Contributed materials and services

A contribution of assets other than cash would be measured at fair value estimated using market or appraisal values. For contributed materials and services that are normally purchased, fair value would be determined in relation to the purchase of similar materials and services.

Contributed materials and services that are part of a constructed or developed capital asset would be recognized at fair value.

The NPO may choose to recognize contributions of materials and services, but should do so only when:

- a fair value can be reasonably estimated; and
- when the materials and services are used in the normal course of the NPO's operations and would otherwise have been purchased.

Often these contributions are not recorded because of record-keeping and valuation difficulties. For example, it may be impractical to record the receipt of contributed services where the NPO depends heavily on the use of volunteers to provide services. Where contributed materials and services meet the criteria of fair value measurement, recording their value would provide useful Information.

Revenue recognition: restricted fund method

Restricted fund method

The restricted fund method of accounting for contributions is a specialized type of fund accounting that involves the reporting of details of financial statement elements by fund in such a way that the NPO reports:

- total general funds;
- one or more restricted funds; and
- an endowment fund, if applicable.

Reporting of financial statement elements segregated on a basis other than that of use restrictions (for example, by program or geographic location) does not constitute the restricted fund method.

The contributions and related income are recognised as follows:

Contribution / income	Recognition
Endowment contributions	Recognise as revenue of the endowment fund in the current period.
Restricted contributions reported in restricted fund	Restricted contributions for which a corresponding restricted fundis presented should be recognized as revenue of that fund in the current period.
Restricted contributions reported in general fund	Restricted contributions for which no corresponding restricted fund is presented should be recognized in the general fund in accordance with the deferral method. In such case, deferred contributions balances should be presented in the statement of financial position outside net assetsas liability.
Unrestricted contributions	Recognise as revenue of the general fund in the current period.
Allocation of unrestricted resources to restricted fund	This allocation shall be reported as an inter-fund transfer in thestatement of changes in net assets.

Net investment income (includes revenue, gains or losses on investments)	Externally restricted investment income that must be added to principal resources held for endowment, recognise as direct increase or decrease in net assets. Other externally restricted investment income, as per the type of restrictions discussed above. In case there is no external restriction, recognise in the statementof income and expenditure.

Revenue recognition: deferral method

When an NPO uses fund accounting in their financial statements without following the restricted fund method, contributions would be accounted for using the deferral method. The contributions and related income are recognised as follows:

Contribution / income	Recognition
Endowment contributions	Recognise as direct increases in net assets in the current period and excluded from revenue.
Restricted contributions for expenses of current period	Recognise as revenue in current period.
Restricted contributions for expenses of future periods	Defer and recognise as revenue in the same period(s) as the related expenses are recognised. When the only restriction on a contribution is that it cannot be used until a particular future period, the total amount of the contribution would be recognized as revenue in that future period, whether or not it has been spent.
Restricted contributions forthe purchase of capital assets	In case of depreciable assets: defer and recognise as revenue on the same basis as the depreciation/amortisation expense related to the acquired capital assets. In case of non-depreciable assets, recognise as direct increase in net assets. In order for a contribution to be accounted for as a contribution restricted for the purchase of a capital asset, the contributor must specify the portion of the contribution that is to be used to purchase capital assets. If the contributor does not so specify, then the contribution would be recognized as revenue when spent for the particular purpose covered by the restriction, regardless of the fact that some of the expenditures may relate to the purchase of capital assets.
Restricted contributions for the repayment of debt	In case debt was incurred to fund expenses of future periods, defer and recognise as revenue in same period(s) as the related expenses are recognised. In case debt was incurred to fund the purchase of capital asset (depreciable), defer and recognise as revenue on the same basis as the depreciation/amortisation expense related to the acquired capital assets. In case debt was incurred to fund the purchase of capital asset (non-depreciable), recognise as direct increase in net assets. Otherwise, recognise as revenue in the current period.
Unrestricted contributions	Recognise as revenue in the current period.

Net investment income (includes revenue, gains or losses on investments)	Externally restricted investment income that must be added to principal resources held for endowment are recognised as direct increase or decrease in net assets. Other externally restricted investment income are recognised as per the type of restrictions discussed above. In case there is no external restriction, recognise in the statement of income and expenditure.
Deferred contributions balances should be presented in the statement of financial position outside net assets as liability.	

LO8: **ASNPO: INVENTORIES AND NON-CURRENT ASSETS**

Inventories

Contribution of materials

When an NPO recognizes contributions of materials and goods, the cost of inventories shall reflect the fair value at the date of contribution.

To be distributed at no charge or for a nominal charge

An NPO shall measure inventories at the lower of cost and current replacement cost when they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Example : Inventories

Medicine-for-All is an NPO which provides medicine to communities living in underdeveloped areas at nominal charge. It has following inventories:

Item	Type	Cost	NRV*	Replacement cost	Fair value
		Rupees.			
Panadol	Received in kind	Nil	6,000	26,000	28,000
Neubrol	Purchased for cash	24,000	4,000	24,500	25,000
Imodium		12,000	3,000	12,000	12,500
Motilium		15,000	2,500	14,700	15,200
Rijix		18,000	3,500	18,300	17,900

*provided at nominal charge

Required:

Calculate the amount of inventory that should be presented in the statement of financial position of Medicine-for-All from above data.

Answer:

Item	Basis	Rupees
Panadol	Cost equal to fair value but replacement cost is lower	26,000
Neubrol	Cost (lower)	24,000
Imodium	Cost / replacement cost (equal)	12,000
Motilium	Replacement cost (lower)	14,700
Rijix	Cost (lower)	18,000
Total		**94,700**

Collections

Definition: Collections

Collections are works of art, historical treasures or similar assets that are:

- held for public exhibition, education or research;
- protected, cared for and preserved; andsubject to an organisational policy that requires any proceeds from their sale to be used to acquire other items to be added to the collection or for the direct care of the existing collection.

Capitalisation

The cost of capitalizing collections often would exceed the incremental benefit of the information gained, especially for NPOs that have been in existence for several decades. Accordingly, although the capitalization of collections is not precluded, it is not required.

Certain works of art and historical treasure not to be depreciated

Certain works of art and historical treasures may have lives that are so long as to be virtually unlimited. Works of art and historical treasures in this category are those that have cultural, aesthetic, or historical value that is worth preserving perpetually. In addition, the NPO must have the technological and financial ability to continue to protect and preserve them. Works of art and historical treasures of this type would not be depreciated.

Property, plant and equipment

Definition: Tangible capital assets

Tangible capital assets are identifiable tangible assets that meet all of the following criteria:

- are held for use in the provision of services, for administrative purposes, for production of goods or for the maintenance, repair, development or construction of other tangible capital assets;
- have been acquired, constructed or developed with the intention of being used on a continuing basis;
- are not intended for sale in the ordinary course of operations; and
- are not held as part of a collection.

Recognition

Property, Plant and Equipment (PPE) shall be recognized as an asset, if and only if:

- it is probable that future economic benefits associated with the item will flow to the NPO; and
- the cost of the item can be measured reliably.

Measurement for contributed assets

A contributed asset would be recognized at its fair value at the date of contribution. Fair value of a contributed asset may be estimated using market or appraisal values.

When an estimate of fair value cannot reasonably be made, both the asset and the related contribution would be recognized at nominal value.

A tangible capital asset purchased by an NPO at a value substantially below fair value would also be recognized at its fair value with the difference between the consideration paid for the tangible capital asset and fair value reported as a contribution.

A tangible moveable capital asset procured from a grant may be recognised at carrying amount deducting the grant. The grant is recognised in profit or loss over the life of the depreciable asset as a reduced depreciation expense.

If it is a grant for a specified period and the asset has to be returned at the end of the grant period. asset shall be valued at fair value less present value of the estimated residual amount at the time of grant / contribution.

Construction or development over time

The cost of PPE includes direct construction or development costs (such as materials and labour) and overhead costs directly attributable to the construction or development activity. PPE which is developed or constructed by an NPO might include contributed materials or labour, which would be recognized at fair value at the date of contribution.

Land

Land normally has an unlimited life and would not be depreciated.

Depreciation /Amortisation (under fund accounting)

When a fund accounting basis of reporting is used, the choice of the fund or funds to which depreciation expense would be charged would be based on providing the most meaningful presentation.

Some NPOs may wish to show depreciation as an expense of the operating fund. This presentation emphasizes that depreciation is part of the cost of service delivery.

Other NPOs may prefer to show depreciation as an expense of the PPE fund. This presentation shows all revenues and expenses associated with tangible capital assets in a single fund.

Unamortised deferred contributions

When PPE no longer contribute to the NPO's ability to provide services, its carrying amount would be written down to residual value, if any. A write-down would be necessary, for example, when the NPO no longer plans to use the asset because it has been damaged or rendered obsolete.

When an asset's carrying amount is written down, a corresponding amount of any unamortized deferred contributions related to the asset would be recognized as revenue, provided that all restrictions have been complied with.

Intangible assets

Definition: Intangible assetIntangible asset is defined as an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

Recognition

The NPO shall recognize an intangible asset as an asset if, and only if:

- it is probable that the expected future economic benefits that are attributable to the asset willflow to the NPO; and
- the cost or value of the asset can be measured.reliably.

Internally generated assets: Expense

Internally Generated research costs, goodwill, brands, training costs are always expensed out.

Expenditure on intangible item that was initially recognized as an expense shall not subsequently be capitalized as part of the cost of an intangible asset.

Internally generated assets: Capitalised

Development costs, which is the next step after research phase, can be capitalized if all of the following conditions are fulfilled:

(a) the technical feasibility of completing the asset;

(b) the intention to complete the asset exists;

(c) the ability to use or sell the asset;

(d) how the asset will generate the future economic benefit and ability to demonstrate theexistence of market;

(e) the availability of adequate resources to complete; and

(f) the NPO's ability to reliably measure the cost of development of the asset.

Website costs

Website costs are categorized into five basic stages that are:

- Stage 1: planning stage
- Stage 2: application and infrastructure development
- Stage 3: the graphical design development
- Stage 4: content development
- Stage 5: operations.

Costs incurred in stage 1 and stage 5 are always expensed. However, costs incurred from stage2 to 4 can be capitalized if it fulfils the criteria of capitalisation of development asset discussed earlier, particularly criteria (d).

Unamortised deferred contributions Same requirements

as for PPE. Contributed intangible assets

Same requirements as for PPE.

LO9: ASNPO: PREPARATION OF FINANCIAL STATEMENTS

General

The accounting and approach for preparation of financial statements of an NPO is similar to other entities except for the issues specifically addressed in ASNPO.

This section will discuss general presentation requirements and formats of following:

- statement of financial position (or balance sheet)
- statement of income and expenditure
- statement of changes in net assets
- statement of cash flows.

Statement of financial position

The preparation of financial statements of an NPO is same

The statement of financial position should present the following:

- net assets subject to restrictions to be maintained permanently as endowments;
- designated net assets;
- unrestricted net assets; and
- total net assets.

Information about the NPO's liquidity is presented by classifying current assets separately from noncurrent assets and current liabilities separately from non-current liabilities. Cash and other assets subject to external restrictions limiting their use to beyond one year from the date of the statement of financial position would be classified as non-current assets.

Under the deferral method of accounting for contributions, endowment contributions are accumulated in the net assets balance. Internally restricted balances are reflected as appropriations of unrestricted net assets in the net assets balance. Externally restricted contributions are accumulated in the statement of financial position as deferred contributions.

Under the restricted fund method of accounting for contributions, endowment contributions are accumulated in the endowment fund balance. Other internally and externally restricted contributions are accumulated in the statement of financial position as part of the appropriate restricted fund balance. If there is no appropriate restricted fund, externally restricted contributions are accumulated as deferred contributions in the general fund.

Statement of financial position (Format)

Not-for-Profit Organisation

Statement of financial position

As at 31 December 20X2

	20X2 Rs. 000	20X1 Rs. 000
Non-current assets		
Capital assets /property and equipment)	1,987	XX
Intangible assets	50	XX
Collections	80	XX
Investments	4,157	XX
	6,274	XX
Current assets		
Office supplies stock	55	XX
Prepaid expenses	58	XX
Grants/contribution receivable	17	XX
Cash and cash equivalents	183	XX
	313	XX
	6,587	**XXX**
Fund balances / Net assets		
Net assets: restricted for endowments	208	XX
Net assets: Externally restricted for specific projects	241	XX
Net assets: internally restricted for special projects	340	XX
General fund / Unrestricted net assets	2,698	XX
	3,487	XX
Non-current liabilities		
Deferred grants/contributions	1,800	XX
Loans	300	XX
	2,100	XX
Current liabilities		
Deferred grants/contributions	600	XX
Accrued expenses	400	XX
	1,000	XX
	6,587	XX

Illustration

Statement of financial position (Multi-Columnar Format)

Not-for-Profit Organisation

Statement of financial position

As at 31 December 20X2

	20X2 Rs. 000 General operations	Special projects	Endowment	Total	20X1 Rs. 000
Non-current assets					
Capital assets	1,580	407		1,987	XX
Intangible assets	50			50	XX
Collections	80			80	XX
Investments	3,052	897	208	4,157	XX
	4,762	1,304	208	6,274	XXX
Current assets					
Office supplies Stock	52	3		55	XX
Prepaid Expenses	51	7		58	XX
Grants/contribution receivable	17			17	XX
Cash and cash equivalents	166	17		183	XX
	286	27	0	313	XX
	5,048	1,331	208	6,587	XXX
Fund balances / Net assets					
Externally restricted		241	208	449	XX
Internally restricted		340		340	XX
Unrestricted	2,698			2,698	XX
	2,698	581	208	3,487	XX
Non-current liabilities					
Deferred grants/contributions	1,300	500		1,800	XX
Loans	300			300	XX
	1,600	500	0	2,100	XX
Current liabilities					
Deferred grants/contributions	400	200	0	600	XX
Accrued expenses	350	350		400	XX
	750	250	0	1,000	XX
	5,048	1,331	208	6,587	XX

Statement of income and expenditure

Classification of expenses

NPO may classify expenses in the statement of income and expenditure:

- by object (for example, salaries, rent, utilities);
- by function (for example, administrative, research, ancillary operations); or
- by program.

An NPO would classify its expenses in the manner that results in the most meaningful presentation in the circumstances. Whether the NPO prepares its budgets by function or object would be a factor to consider in deciding which method of expense classification would be most appropriate for the NPO's financial statements.

Attribution of expenses (under classification by function)

When attributing an expense among various operating functions, an NPO considers an approachsuch as the following:

- an expense that contributes directly to the output of one function is applied directly to that function, for example, the cost of a staff member exclusively devoted to that function.
- an expense that contributes directly to the output of more than one function is attributed on a reasonable and consistent basis to each function to which it applies (for example, the rent applicable to the space used for more than one separately reported function, and the remuneration expense of an executive director of a small health care NPO who, in addition to managing the NPO, provides direct health care services to clients of that NPO).

Statement of income and expenditure — deferral method

The statement of income and expenditure should present:

- for each financial statement item, a total that includes all funds reported; and
- total excess or deficiency of revenues and gains over expenses and losses for the period.

Under the deferral method of accounting for contributions, total excess of revenues over expenses for all funds reports the change in the NPO's unrestricted resources in the period.

Illustration

Statement of income and expenditure (Format)

Not-for-Profit Organisation

Statement of income and expenditure (deferral method)

For the year ended 31 December 20X2

	20X2 Rs. 000	20X1 Rs. 000
Income		
Fee-for-services	5,300	XX
Government grants	1,200	XX
Contributions	170	XX
Fundraising events	350	XX
Investment income	31	XX
Other income	2	X
	7,053	XXX
Expenditures		
Salaries	3,070	XX
Rent	1,320	XX
Office supplies used	610	XX
Utilities	880	XX
Marketing and communications	422	XX
Amortisation of capital assets	153	XX
	(6,455)	(XXX)
Excess of income over expenditure	598	XX

Statement of income and expenditure — restricted fund method

The statement of income and expenditure should present the following for the period:

- the total for each financial statement item recognized in the general fund;
- the total for each financial statement item recognized in the restricted funds, other than the endowment fund;
- the total for each financial statement item recognized in the endowment fund; and
- excess or deficiency of revenues and gains over expenses and losses for each of the general fund, restricted funds other than the endowment fund and the endowment fund.

Under the restricted fund method of accounting for contributions, the general fund presents all revenues and expenses related to unrestricted resources.

Illustration

Statement of income and expenditure (Format)

Not-for-Profit Organisation

Statement of income and expenditure (restricted fund method)

For the year ended 31 December 20X2

	20X2 Rs. 000				20X1 Rs. 000
Income	General fund	Special fund	Endowment fund	Total	
Fee-for-services	5,300			5,300	XX
Government grants	1,200	500		1,700	XX
Contributions	170	20	20	210	XX
Fundraising events	350			350	XX
Investment income	31	8	18	57	XX
Other income	2			2	XX
	7,053	528	38	7,619	XXX
Expenditures					
Salaries	3,070	320		3,390	XX
Rent	1,320			1,320	XX
Office supplies used	610	20		630	XX
Utilities	880	57		937	XX
Marketing & communications	422			422	XX
Amortisation of capital assets	153	30		183	XX
	(6,455)	(427)	0	(6,882)	(XX)
Excess of income over expenditure	598	101	38	737	XX

Presentation of revenues and expenses — gross versus net

Revenues and expenses should be recognized and presented at their gross amounts and this information may be presented in the notes to the financial statements. The determination of whether to report the revenues and expenses on a gross or net basis depends on the relative facts and circumstances and requires significant judgment.

Example : Funded development

An NPO receives funding to undertake a specific research project. The NPO contracts at its own discretion with a scientist to perform the research. The NPO would not have undertaken the research project had the funds not been made available.

Required:

Whether the funding revenue and cost of scientist's services be presented on gross basis or net basis?

Answer:

Although the NPO would not have undertaken the research project without the availability of the funding, the NPO acts as the principal in contracting with the scientist. It specifies the details of the research to be carried out by the scientist, and has discretion in selecting the scientist and in establishing the price to be paid. Thus, the expenses incurred are obligations of the NPO. The funding revenue and cost of scientist services should be presented on gross basis in statement of Income and expenditure.

Example : Funded development

An NPO receives funding (reimbursement) to undertake a specific research project from a textile company. The NPO allocates an employee to textile company for the conduct of research. The NPO would be reimbursed for all the costs related to that employee.

Required:

Whether the reimbursement and employee-related costs be presented on gross basis or net basis?

Answer:

The NPO has an employee who is seconded to a textile company to work under their direction and the NPO is reimbursed for all of the costs related to that employee. As the NPO is the employer, they would report their employee-related costs as expenses and would report the reimbursement of their costs as revenues on gross basis in statement of Income and expenditure.

Example : Direct fundraising activities

An NPO engages in a number of fundraising activities, including a fundraising telethon, a telephone campaign, a direct mail campaign, special events and a lottery. The NPO uses an outside fundraising consultant to conduct the telethon and uses the NPO's own staff and volunteers in the telethon and the other activities. Funds solicited in each of the activities are raised in the name of the NPO.

Required:

Whether the fundraised and related costs be presented on gross basis or net basis?

Answer:

Even though the NPO uses an outside fundraising consultant to conduct the telethon, the NPO is the principal in the relationship with the donors as the funds are raised in its name. The NPO has discretion in selecting the outside fundraiser, in establishing the fees to be paid and in determining the specifications of the telethon. The NPO also has the credit risk if donors to the telethon do not pay according to their pledge. Thus, the NPO should recognize the gross amounts fundraised in each of the activities as revenue of the NPO, and the total expenses of each activity, including the fees charged by any outside party, as expenses of the NPO, separately.

Example: Fund raising conducted by others

An NPO is actively engaged in helping communities in flood affected area. A group of students organised a music concert, announcing that the net proceeds of the event shall be given to the NPO.

Required:

Whether to report the revenue and costs of the event on gross basis or net basis?

Answer:

The NPO is not the principal in the fundraising event as it was not involved in organizing the event and did not bear any risks in connection with it. The amount received by the NPO is a donation from the organizers of the event. Neither the gross revenues nor the gross expenses of the event are recognized in the NPO's financial statements. The net proceeds received are recognized as a contribution. Disclosure of gross revenues and expenses is not required.

Statement of changes in net assets

The statement of changes in net assets should present changes in the following for the period:

- restricted net assets (to be maintained permanently as endowments);
- internally restricted net assets;
- externally restricted net assets (other than endowment assets);
- unrestricted net assets; and
- total net assets.

The statement of changes in net assets may be referred to as 'the statement of changes in fund balances' when the NPO uses fund accounting in its financial statements.

Inter-fund transfers should be presented in the statement of changes in net assets. Allocations of revenues and expenses between funds that are made when the NPO first recognizes the revenue or expense are not considered to be transfers.

Illustration :

Statement of changes in net assets (Format)
Not-for-Profit Organisation
Statement of changes in net assets (deferral method)
For the year ended 31 December 20X2

	Unrestricte dGeneral fund	Internally restricted special fund	Externally restrictedfund	Externally restricted endowment fund	Total
			Rs. 000		
Balance 1 Jan	2,145	315	140	150	2,750
Surplus	598				598
Endowment Contributions				20	20
Restricted grants &contributions			520		520
Investment income			8	18	26
Fund utilisation			(427)		(427)
Internally imposedrestrictions	(25)	25			0
Transfers	(20)			20	0
Balance 31 Dec	**2,698**	**340**	**241**	**208**	**3,487**

Statement of cash flows

Operating activities

Cash flows from operations include all cash receipts and disbursements resulting from the main, ongoing service delivery activities of an NPO and exclude cash flows from financing and investing activities.

Cash receipts from operations include unrestricted contributions, restricted contributions that are to be used for operations and other revenues arising from the NPO's ordinary activities, such as fees for services, proceeds on the sale of goods and unrestricted investment income.

Cash disbursements for operations would comprise expenditures made by the NPO in carrying out its service delivery activities.

Investing activities

Components of cash flows from investing activities would include the acquisition of capital assets, the purchase of investments, and the proceeds on disposal of major categories of assets,

such as capital assets and investments.

Financing activities

Components of cash flows from financing activities would include cash contributed that is restricted for the purpose of acquiring capital assets and cash contributed for endowment. Cash receipts and disbursements related to the assumption and repayment of debt would also be presented as components of cash flows from financing activities.

Illustration

Statement of cash flows (Format)

Not-for-Profit Organisation

Statement of cash flows

As at 31 December 20X2

	20X2 Rs. 000	20X1 Rs. 000
Cash flows from operating activities		
Surplus (deficit) of income over expenditure	197	(14)
Adjustments:		
Amortisation of capital assets	24	30
Amortisation of deferred grant / contributions	(84)	(80)
Finance cost	16	12
	153	(52)
Changes in non-cash working capital balances		
Office supplies	(18)	(8)
Prepaid expenses	(3)	4
Accrued expenses	8	(11)
Cash generated from operations	140	(67)
Interest paid	(20)	(15)
Grants and contributions received	280	250
Net cash from operating activities	400	168
Cash flows from investing activities		
Purchase of capital assets	(800)	(300)
Purchase of investments	(1,400)	(1,100)
Sale proceeds from investments	81	75
Investment income received	11	18
Net cash used in investing activities	(2,108)	(1,307)
Cash flows from financing activities		
Loan obtained (repaid)	100	(500)
Endowment contributions	1,250	950
Restricted contributions for capital assets	300	800
Cash flows from financing activities	1,650	1,250
Net increase (decrease) in cash and cash equivalent	(58)	111
Cash and cash equivalents at beginning of year	211	100
Cash and cash equivalents at end of year	153	211

Example

The following information relates to Professional Sports Club (PSC), a Not-for-Profit Organisation.

Trial balance as at 30 June 20X3

	Dr. Rs. m	Cr. Rs. m
Total Funds as on 01 July 20X3		1,715
Long term assets (net)	428	
Investments	1,204	
Short term bank loan		17
Prepaid and accrued expenses	8	11
Cash at bank	43	
Fee-for-services		340
Fundraising in various tournaments (net proceeds)		15
Contributions		94
Government funding		150
Investment income		144
Salaries	403	
Rent and utilities	354	
Other expenses	46	
	2,486	**2,486**

Additional information:

1. The composition of fund balances is as follows:

	Rs. m
Fund for Supporting the Young-Talent (Externally imposed stipulationthat resources contributed be maintained permanently)	50
Fund for gymnasium and training centre (Externally imposedstipulation for specific use of resources)	115
Fund for acquiring a franchise in a popular league (Internally imposedstipulation for specific use of resources)	3
Fund for general operations: no restrictions	1,547
	1,715

2. The details of contributions (same restrictions apply as are applicable to related fund) are as follows:

	Rs. m
Contribution for 'Supporting the Young-Talent'	15
Contribution for gymnasium and training centre	2
Contribution to acquire freehold land (external restriction). However,the land has not been acquired yet.	12
Contribution to repay loan that was taken to fund current yearexpenses	8
Contributions (unrestricted but PSC itself imposed restriction that Rs.3 million will be allocated for acquiring franchise in a popular league)	57
	94

The government funding was received to support PSC general operations for five years starting from 1st January 20X4.

The investment income of Rs. 6 million is externally restricted to be added to principal amount of resources for Young-Talent fund to be maintained permanently. There is no other restrictions on investment income.

Long term assets in the trial balance include freehold land of Rs. 20 million and collections of Rs. 8 million. These collections represent items of such historic value that is worth preserving perpetually and PSC is committed to protect and preserve them as part of its organisation policy.

Long term assets are depreciated at 20% reducing balance method. All the amortisation is allocated to general operations.

As part of agreement with contributors of 'Supporting the Young-Talent', PSC is required to allocate Rs. 5 million from unrestricted fund to the restricted fund, annually.

The allocation of expenses is as follows:

	General operations	Gymnasium and training centre
	Rs. m	Rs. m
Salaries	370	33
Rent and utilities	325	29
Other expenses	40	6
	735	68

Required:

Prepare the following (under a) deferral method b) restricted fund method) for PSD:

- Statement of Income and expenditure for the year ended 30 June 20X4.
- Statement of changes in net assets for the year ended 30 June 20X4.
- Statement of financial position as at 30 June 20X4 (single column).

Answer-

Professional Sports Club
Statement of income and expenditure
For the year ended 30 June 20X4

Income	Rs. m
Fee-for-services	340
Fundraising proceeds	15
Contributions [8 + 57]	65
Government funding [150 / 5 years x 6/12]	15
Investment income [144 – 6]	138
	573

Expenditures	
Salaries	370
Rent and utilities	325
Other expenses	40
Amortisation of capital assets [(428 – 8 – 20) x 20%]	80
	(815)
Surplus / (Deficit)	(242)

Professional Sports Club
Statement of changes in net assets
For the year ended 30 June 20X4

	Unrestricted	Internally restricted	Externally restricted		Total
	General fund	Franchise acquisition	Gymnasium & Training Centre Fund	Young-Talent Endowment fund	
			Rs. m		
Balance 1 July	1,547	3	115	50	1,715
Surplus / (deficit)	(242)				(242)
Endowment Contributions				15	15
Restricted grants & contributions			2		2
Investment income				6	6
Fund utilisation			(68)		(68)
Internally imposed restrictions	(3)	3			0
Transfers	(5)			5	0
Balance 30 June	**1,297**	**6**	**49**	**76**	**1,428**

Professional Sports Club
Statement of financial position
As at 30 June 20X4

	Rs. m
Non-current assets	
Capital assets [428 – 8 – 80]	340
Collections	8
Investments	1,204
	1,552
Current assets	
Prepaid expenses	8
Cash at bank	43
	51
	1,603

Fund balances / Net assets

Net assets: restricted for endowments	76
Net assets: Externally restricted gymnasium and training centre	49
Net assets: internally restricted for franchise rights	6
General fund / Unrestricted net assets	1,297
	1,428
Non-current liabilities	
Deferred grants/contributions [150 – 15 – 30]	**105**
Current liabilities	
Deferred grants/contributions [12 for land + 150 / 5]	42
Short term bank loan	17
Accrued expenses	11
	70
	1,603

Answer

a) Deferral Method
Professional Sports Club
Statement of income and expenditure
For the year ended 30 June 20X4

	Rs. m
Income	
Fee-for-services	340
Fundraising proceeds	15
Contributions [8 + 57]	65
Government funding [150 / 5 years x 6/12]	15
Investment income [144 – 6]	138
	573
Expenditures	
Salaries	370
Rent and utilities	325
Other expenses	40
Amortisation of capital assets [(428 – 8 – 20) x 20%]	80
	(815)
Surplus / (Deficit)	(242)

	Unrestricted	Internally restricted	Externally restricted		Total
	General fund	Franchise acquisition	Gymnasium & Training Centre Fund	Young-Talent Endowment fund	
			Rs. m		
Balance 1 July	1,547	3	115	50	1,715
Surplus / (deficit)	(242)				(242)
Endowment Contributions				15	
Restricted grants & contributions			2		2
Investment income				6	6
Fund utilization			(68)		(68)
Internally imposed restrictions	(3)	3			0
Transfers	(5)	-		5	0
Balance 30 June	**1,297**	**6**	**49**	**76**	**1,428**

Professional Sports Club
Statement of financial position
As at 30 June 20X4

	Rs. m
Non-current assets	
Capital assets [428 – 8 – 80]	340
Collections	8
Investments	1,204
	1,552
Current assets	
Prepaid expenses	8
Cash at bank	43
	51
	1,603
Fund balances / Net assets	
Net assets: restricted for endowments	76
Net assets: Externally restricted gymnasium and training centre	49
Net assets: internally restricted for franchise rights	6
General fund / Unrestricted net assets	1,297
	1,428
Non-current liabilities	
Deferred grants/contributions [150 – 15 – 30]	**105**
Current liabilities	
Deferred grants/contributions [12 for land + 150 / 5]	42
Short term bank loan	17
Accrued expenses	11
	70
	1,603

(b) Restricted Fund Method
Professional Sports Club
Statement of changes in net assets
For the year ended 30 June 20X4

	Unrestricted	Restricted	Endowment	Total
	Rs. m			
Income				
Fee-for-services	340			340
Fundraising proceeds	15			15
Contributions [8 + 57]	65	2	15	82
Government funding [150 / 5 years x 6/12]	15			15
Investment income	138		6	144
	573	2	21	596
Expenditures				
Salaries	370	33		403
Rent and utilities	325	29		354
Other expenses	40	6		46
Amortisation [(428 – 8 – 20) x 20%]	80			80
	(815)	(68)	0	(883)
Surplus / (Deficit)	(242)	(66)	21	**(287)**

Professional Sports Club
Statement of changes in net assets
For the year ended 30 June 20X4

	Unrestricted	Internally restricted	Externally restricted		Total
	General fund	Franchise acquisition	Gymnasium & Training Centre Fund	Young-Talent Endowment fund	
	Rs. m				
Balance 1 July	1,547	3	115	50	1,715
Surplus / (deficit)	(242)		(66)	21	(287)
Internally imposed restrictions	(3)	3			0
Transfers	(5)			5	0
Balance 30 June	**1,297**	**6**	**49**	**76**	**1,428**

Professional Sports Club
Statement of financial position
As at 30 June 20X4

	Rs. m
Non-current assets	
Capital assets [428 – 8 – 80]	340
Collections	8
Investments	1,204
	1,552
Current assets	
Prepaid expenses	8
Cash at bank	43
	51
	1,603
Fund balances / Net assets	
Net assets: restricted for endowments	76
Net assets: Externally restricted gymnasium and training centre	49
Net assets: internally restricted for franchise rights	6
General fund / Unrestricted net assets	1,297
	1,428
Non-current liabilities	
Deferred grants/contributions [150 – 15 – 30]	**105**
Current liabilities	
Deferred grants/contributions [12 for land + 150 / 5]	42
Short term bank loan	17
Accrued expenses	11
	70
	1,603

PRACTICE QUESTIONS

Question-1

Gulshan Joy Club prepared the following Receipts and Payments Account for the year ended 31.12.2012:

Receipts	Rs	Payments	Rs
Balance b/d	60,500	Sports Equipments (purchased on 30.5.2012)	35,000
Subscriptions:		Tournament Expenses	6,300
-2011	3,000	Electricity	26,000
-2012	124,500	Salaries and Wages	35,000
-2013	7,500		
Entrance Fees	23,000		
Donation received	9,600	Balance c/d	125,800
	228,100		228,100

Additional information:

(i) Fixed assets of the club on 1.1.2012 include the following
- Sports Equipment-Rs.150,000:
- Club Ground-Rs.450,000:
- Furniture-Rs.85,000:

(ii) In 2011, subscriptions for 2012 were collected -Rs.12,000:

(iii) Unpaid for 2012- subscriptions Rs.8,000; and electricity Rs.3,000.

(iv) Depreciation to be provided @ 20% p.a. on sports equipment and @ 10% p.a. on furniture.

Required:

Prepare an Income and Expenditure Account for the year ended on 31.12.2012 and a balance sheet as on that date. **(8)**

Question-2

The following is the Receipts and Payments Account of the Friends Association for the year ending 31st December, 2011:

Receipts	Rs.	Payments	Rs.
Balance b/d	5,000		
Subscription	10,500	Rent	3,300
Entrance Fees	2,000	Salaries and Wages	8,750
Interest on Investments	1,500	Furniture	1,500
Donations	750	Repairs	600
		Balance c/d	5,600
	19,750		**19,750**

Other Information:

1) Subscription received in advance during the year is Rs. 500.
2) Closing subscription receivable is Rs. 2,000
3) Rent represents payment for 11 months and 1 month's rent is still payable.
4) Salaries for Rs. 250 are prepaid.
5) Depreciation on furniture is to be recorded @ 10% for whole year.

Required: From the above information prepare an Income and Expenditure Account for the year ending 31st December 2011. **(8)**

Question-3

The following is the Receipts and Payments Account of the Lahore Sports Club for the year ending 31st March, 2010:

Receipts		Rs.	Payments	Rs.
Balance (April 1, 2009)		20,000		
Entrance Fees		30,000	Rent	60,000
Subscription:			Stationery Expenses	5,000
	2008-09	13,500	Wages	12,500
	2009-10	160,000	Billiards Table	125,000
	2010-11	24,000	Repair and Renewals	13,600
		197,500		
Locker Rent		24,300	Balance (March 31, 2010)	55,700
		271,800		271,800

1) Locker rents Rs. 5,000 relate to 2008-09 and Rs. 8,500 is still owing
2) Rent Rs. 6,000 pertained to 2008-09 and Rs. 7,000 pertained to 2010 is still due.
3) Stationery expenses Rs. 950 related to 2008-09 and prepaid on March 31, 2010 Rs. 780.
4) Subscription unpaid for 2009-10 Rs. 10,000
5) Fixed assets (if any) are to be depreciated @ 25% for whole year.

Required:

From the above information you are required to make out an Income and Expenditure Account of the club for the year ending March 31, 2010 and a Balance Sheet as on that Date (8)

Question-4

From the following Trial Balance of Lahore Club prepare an Income and Expenditure Account for the year ended on 31st March. 2003 and a Balance Sheet as on that date (all figures in Rupees):

Particulars	Dr.	Cr.
General Fund		30,000
Cash in hand	2,000	
Cash at Bank	3,000	
Sundry Debtors	2,400	
Sundry Creditors		1,500
Loan @ 15% (01.07.2002)		20,000
Furniture and Fixture	10,000	
Clubhouse	40,000	
Stock of Bottles (01.04.2002)	500	
Rent	6,000	
Rates, Taxes and Insurance	600	
Secretary's Honorarium	1,200	
Entrance Fees	1,000	
Rent payable		1,500
Steward's and servant's wages	5,800	
Extension of Club house	10,000	
Printing and stationery	1,000	
Law charges	500	
Annual subscriptions		30,000
Card and Billiard room receipts		4,000
Washing of liveries and sundries	1,600	
Biscuits, Bottles and Sweets sold		5,000
Repairs to club house and furniture	400	
Conversion expenses	1,000	
Biscuits Bottles and Sweets purchased	4,000	
Interest on Loan	1,000	
Total	**92,000**	**92,000**

Additional Information:
(i) Subscriptions for 2002-03 outstanding Rs.2,000;
(ii) Write-off depreciation @ 10% p.a. on furniture and 2% on Club house including the extension;
(iii) Stock of Bottles Rs.400: Biscuits Rs.600 on 31.03.2003. **(15)**

Question-5

A summary of receipts and payments of Medical Aid Society for the year ended 31.12.2002 is given below:

Receipts	Rs	Payments	Rs
Balance (1.1.2002)	7,000	Payment for medicines	30,000
Subscriptions	50,000	Honorarium to doctors	10,000
Donations	14,500	Salaries	27,500
Interest on investments @ 7% p.a.	7,000	Sundry expenses	500
Charity show proceeds	10,000	Equipment purchased	15,000
		Charity show expenses	1,000
		Balance (31.12.2002)	4,500
	88,500		**88,500**

Additional Information (in Rupees):

	1.1.2002	31.12.2002
Subscriptions due	500	1,000
Subscriptions received in advance	1,000	500
Stock of medicines	10,000	15,000
Amount due to Medicine suppliers	8,000	12,000
Value of equipments	21,000	30,000
Value of Buildings	40,000	38,000

Required:

Prepare an Income and Expenditure Account for the year ended 31st December, 2002 and the Balance Sheet as on that date. **(12)**

Question-6

The following summary of the Cash Book has been prepared by the Treasurer of a Club:

Receipts	Rs	Payments	Rs
Cash in hand and at bank on April 1, 2002	4,740	Wages-Outdoor staff	13,380
Members' subscriptions	29,720	Restaurant purchases	50,400
Entrance fees	3,200	Rent-18 months to June 30,2003	7,500
Restaurant receipts	56,800	Rates	2.200
Games competition receipts	13,640	Secretary's salary	3,120
Miscellaneous income	80	Lighting, cleaning and sanitary services	7,700
		Competition prizes	4,000
		Printing, postage and sundries	6,000
		Placed in fixed deposits with bank	8,000
		Balance in hand and at bank on March 31,2003	5,880
	108,180		108,180

1) On 1 April 2002, the Club's assets were: Furniture and Equipment Rs. 48,000: Restaurant Stocks Rs.2,600; Stock of Prizes Rs.800. Rs. 5,200 was owing for supplies to the Restaurant.
2) On March 31, 2003 the Restaurant Stocks were Rs.3,000 and prizes in hand were Rs.500 while the Club owed Rs.5,600 for Restaurant Supplies.
3) It was also found that Members' Subscriptions unpaid at March 31, 2003, amounted to Rs.1,000 and that the figure of Rs.29,720 shown in the Cash Book included Rs.700 in respect of the previous year and Rs.400 paid in advance for the following year.

Required:
Prepare an account showing the profit or loss made on the Restaurant and a General Income and Expenditure Account for the year ended 31st March, 2003 together with a Balance Sheet at that date, after writing 10 percent off on the furniture and equipment. **(12)**

Question-7
New Murree Recreation Club consists of a Tennis section and a Badminton section. The Balance Sheet of the Club as on 1.1.2002 is as under:

Liabilities	Rs.	Assets	Rs.
Accumulated Fund	417,500	Club House	250,000
		Courts: Tennis (Cost Rs.100,000)	80,000
		Badminton (Cost Rs.50,000)	35,000
		Furniture	25,000
		Bank Deposit	10,000
		Cash and Bank	17,000
		Petty Cash	500
	417,500		417,500

The following is the Receipts and Payments Account for the year ended 31.12.2002:

Receipts	Rs.	Payments	Rs.
Balance b/d	17,000	New Tennis Court (1.1.2002)	100,000
Ten-year Tennis Memberships	60,000	Annual Dinner-Expenses	10,500
Subscriptions:-		Expenses on Tournament:	
General	25,000	Tennis	15,000
Sectional:		Badminton	4,000
Tennis	32,000	Bank Deposits	3,000
Badminton	21,000	General Expenses on:	
Tournament Entry Fees:		Tennis	12,000
Tennis	20,000	Badminton	10,000
Badminton	5,000	Rates of Club House	12,000
Annual Dinner-Sale of Tickets	12,000	Miscellaneous Expenses	14,000
New coaching scholarship fund	10,000	Petty Cash	700
		Balance c/d	20,800
	202,000		202,000

Additional information:

(1) In order to help pay for the new tennis court, ten-year tennis memberships were offered for sale at the beginning of 2002 at Rs.2,000 each.

(2) It is the club's policy to write-off the cost of the tennis and badminton courts over a ten-year period.

(3) The petty cash balance on 31.12.2002 was Rs.200. The petty cash float is used exclusively for postage.

(4) Rs.10,000 received as donations during the year for the new coaching scholarship fund. This will be utilised for providing training facilities for promising young sportspersons. It is expected to make the first award during 2004.

(5) The balance of the Bank Deposit Account on 31.12.2002 was Rs.14,200.

(6) Furniture is to be depreciated at 10%.

Required:
Prepare an Income and Expenditure Account for the year ended 31.12.2002 showing the net surplus or deficit arising separately from the tennis section and badminton section. Also prepare the Balance Sheet of the Club as on 31.12.2002. **(18)**

Question-8

The following is the Receipts and Payments Account of Sydney Club for the year ended 31st March, 2003:

Receipts	Rs.	Payment	Rs.
Opening Balance:		Salaries	120,000
Cash	10,000	Creditors	1,520,000
Bank	3,850	Printing and Stationery	70,000
Subscriptions Received	202,750	Postage	40,000
Entrance Donation	100,000	Telephones and Telex	52,000
Interest Received	58,000	Repairs and Maintenance	48,000
Sale of Assets	8,000	Glass and Table Linen	12,000
Miscellaneous Income	9,000	Crockery and Cutlery	14,000
Receipts at:		Garden Upkeep	8,000
Coffee Room	1,070,000	Membership Fees	4,000
Biscuits	610,000	Insurance	5,000
Swimming Pool	80,000	Electricity	28,000
Tennis Court	2,000	Closing Balance:	
		Cash	8,000
		Bank	224,600
	2,153,600		2,153,600

The Assets and Liabilities as on 01.04.2002 were as follows:

Particulars	Rs.	Particulars	Rs.
Fixed Assets (net)	500,000	Sundry Creditors	112,000
Stock	380,000	Subscriptions Received in Advance	15,000
Investment in 12% Government Securities	500,000	Building Fund	250,000
Outstanding Subscriptions	12,000		
Prepaid Insurance	1,000		

The following adjustments are to be made while drawing up the Accounts:

(i) Subscriptions received in advance as on 31st March, 2003 was Rs. 18,000.
(ii) Outstanding subscriptions as on 31st March. 2003 was Rs. 7,000.
(iii) Outstanding expenses are salaries Rs.8,000 and electricity Rs. 15,000.
(iv) The WDV of assets sold as on 01.04.2002 was Rs.10,000.These were sold on 1.04.2002.
(v) Depreciation is to be provided at the rate of 10% on assets.
(vi) Purchases made during the year amounted to Rs. 1,500,000.
(vii) The value of closing stock was Rs. 210,000.
(viii) The club as a matter of policy charges-off to Income and Expenditure Account all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.

Required:

Prepare an Income and Expenditure Account for the year ended 31st March, 2003 and the Balance Sheet as on 31st March, 2003 along with necessary workings. **(18)**

Question-9

The following information is supplied to you by the Treasurer of The Sargodha Boys Club. From these details, prepare the Income and Expenditure Account for the year ended 31.12.2002. and the Balance Sheet as on that date:

(a) The club was founded five years before when a loan of Rs.200,000 was obtained, free of interest, from a local authority. A club house was erected at the cost of Rs.175,000 and paid for out of the Loan Account. Rs. 80,000 has now been repaid on account of the loan.

(b) Subscriptions received during 2002 totalling Rs.56,950, made up of the following-for 2001 Rs.2,750; for 2002 Rs.53,000; for 2004 Rs.1,200.
In 2001, some subscriptions for 2003 were received in advance, amounting to Rs.2,350.
When the annual accounts for 2001 were prepared, it was estimated that 2001 subscriptions arrears amounting to Rs.4,400 would be collected in 2002.
On 31.12.2002, it was considered that subscriptions arrears of Rs.3,800 would be received in 2003, but the subscriptions still in arrears for 2001 should by written-off.

(c) On 31.12.2001, the credit balance on the Life Membership Fund Account was Rs.47,200. During 2002, amount received in respect of life membership amounted to Rs.27,000.

(d) The net profit on bar during the year was Rs.10,500 after charging 1/2 of salaries. Purchases and sales of bar during the year amounted to Rs.15,000 and Rs.30,000 respectively. The stock of bar on 31.12.2002 was Rs.8,000.

(e) During the year ended, among others, the club paid for the following —
Loan repayment Rs.20,000; Salaries Rs.15,000; Electricity Rs.5,500; Cleaning Rs.2,600; Sundry expenses Rs.8,200.

(f) The other assets and liabilities as on 1.1.2002 and 31.12.2002 were as follows (all figures in rupees)

Date	Cash and Bank	Equipments	Vehicles	furniture
1.12002	25,150	15,000	80,000	40,000
31.12.2002	?	12,000	65,000	36,000

(14)

Question-10

The following is the Receipts and Payments Account of Barisha Recreation Club for the year ended 31.12.2002:

Receipts	Rs	Payments	Rs
Cash in Hand	500	Rent of Club House	1,300
Cash at Bank	6,000	Painting of club House	700
Members' Subscriptions:		Wages of Ground Maintenance	1,500
Ordinary for 2001	100	General Expenses	1,300
Ordinary for 2002	1,800	Electricity Charges	1,800
Ordinary for 2003	200	Investment	10,000
Life Membership Subscriptions	2,000	Secretary's Honorarium	600
Sale of Tickets for Annual Exhibition	10,000	Annual Meeting Expenses	400
Sale of Refreshments	12,000	Sports Equipments	1,800
Interest on Investments	1,300	Purchase of Refreshments	5,500
Sale of Furniture (on 30.6.2002) (original cost on 1.1.2001 was Rs.500)	100	Printing and Stationery	500
		Insurance	300
		Cash in Hand	2,000
		Cash at Bank	6,300
	34,000		34,000

The following information is also available:

(a) On 31.12.2001, outstanding subscriptions for 2001 were Rs.150.
(b) On 31.12.2001, advance subscriptions for 2002 received were Rs.50.
(c) On 31.12.2002, outstanding subscriptions for 2002 were Rs.300.

(d) A life membership scheme was introduced in 2001. Under the scheme, life membership subscription is Rs.500. Life membership subscriptions totalling Rs.2,500 were collected during 2001.

(e) On 1.1.2002, Investment was Rs.20,000 and interest accrued on investment on 31.12.2002 was Rs.1,200.

(f) On 1.1.2001, Furniture costing Rs.8,000 were purchased and it was decided to write off depreciation on furniture and sports equipments @ 10% p.a. on cost.

(g) In 2001, a plot of land was purchased for Rs.20,000 to construct club house.

(h) Other assets and liabilities of the club were: (all figures in rupees)

	Stock of refreshment	Insurance prepaid	Rent accrued	Creditors for refreshment
31.12.2001	1,900	70	200	400
31.12.2002	2,100	50	100	500

Required:

Prepare an Income and Expenditure Account for the year ended 31.12.2002 and also a Balance Sheet as on that date. **(15)**

Question-11

The Comrades club makes up its account to 31st December in each year. On 31st December, 2002 the treasurer left the club premises and has not been seen since. An examination of the records showed that the books had not been written up for a considerable time, and it was decided to reconstruct the figures from 1st January 2002.

A summary of the Bank Account for the year showed the following:

Receipts	Rs	Payments	Rs
Balance (1.1.2002)	416	Rent & Rates	460
Bank deposits	42,610	Insurance	40
		Electricity	156
		Bar purchases	35,067
		Telephone	59
		Cash withdrawn	5,848
		Balance as on 31.12.2002	1,396
	43,026		43,026

The following information is also obtained:

1. The barman places takings in the bank 'night safe' on his way home for crediting to the club account. The duplicate paying-in-slips total Rs.40,612 for the year. The treasurer had no access to bar takings or stock.
2. The receipt counterfoils for members' subscriptions total Rs.3,050 for the year.
3. A summary of expenditure for petty cash was as follows:
   Glasses, crockery and maintenance Rs.1,310; Wages Rs.2,658; National Insurance Rs.210; Sundry expenses Rs.257.
4. Outstanding amounts and prepayments at 31st December were:

	2001	2002
Rates prepaid	26	28
Rent outstanding	40	82
Electricity outstanding	24	18

5. The Bar stock on 1st January, 2002 was Rs.3,607 and on 31st December, 2002 was Rs.2,916. The cash in hand with the treasurer at the beginning of the year was Rs.35.

You are required to prepare:

(i) A summary of the cash position for the year ended 31st December. 2002 indicating the amount, if any, to be claimed under the club's fidelity insurance policy;

(ii) An Income and Expenditure Account for the year 2002. **(15)**

Question-12

Universal Brotherhood Club does not maintain complete double entry books of Account. From the following details, prepare a Receipts and Payment Account, and an Income and Expenditure Account for the year ended 31.12.2002, and a Balance Sheet as on that dale (all figures in rupees):

Date	Outstanding Subscriptions	Advance Subscriptions	Outstanding Salaries	Advance Salaries	Cash and Bank	5% Investments	Furniture	Sports Goods
1.1.2002	14,000	2,800	1,400	-	14,000	14,000	2,800	5,600
31.12.2002	19,600	5,600	700	700	?	7,000	1,400	11,200

1) Subscriptions for the year amount to Rs.70,000.
2) Salaries paid Rs.15,400.
3) 50% of investments was sold at Rs:6,720 on 1.1.2002.
4) Interest on investments left unsold was received.
5) Furniture having book value of Rs.1,400 was sold for Rs.700 at the beginning of the year.
6) Sports goods were purchased at the end of the year.
7) Charge 20% depreciation on sports goods and 10% on furniture.
8) Sports expenses amount Rs.14,000.
9) Miscellaneous expenses are Rs.4,200 and rent amount to Rs.8,400.

(12)

Question-13

The Bilal Sports Club provides the following information:

(1) The Club conducts all its transactions in cash — any surplus being paid into a Saving Account. Interest credited to this account for the year to 31.3.2003 was Rs.3,500.

(2) The Club has 100 members who pay an annual subscription of Rs.50 each. However, on 31.3.2002, ten members had already paid their subscriptions for 2002-03.

(3) The Club has only two sources of income: subscriptions from members and bar sales. A profit margin of 30% of selling price is normally applied to determine bar selling prices but during the year Rs.3,970 of goods were sold at cost.

(4) A summary of the payments for the year is as follows (all figures in rupees):

Purchase of Equipments (1.4.02)	1,000	Rental of Premises	10,000
Lighting	2,620	Club Match Expenses	6,750
Repairs to Equipments	1,760	Trophies (treated as an expense)	4,240
Bar Creditors	74,550	Refreshments for Visiting Teams	2,350

(5) The Club has the following other assets and liabilities (all figures in rupees):

Date	Equipments	Saving Account	Bar Stock	Bar Creditors
1.4.2002	40,000	46,000	8,400	6,300
31.3.2003	?	?	9,200	4,700

(6) Equipments are depreciated at 10% of the value of equipments held on 31st March each year.

You are required to prepare:

(a) A Bar Trading Account for the year ended 31.3.2003;
(b) A Receipts and Payments Account for the year ended 31.3.2003;
(c) An Income and Expenditure Account for the year ended 31.3.2003; and
(d) A Balance Sheet as at 31.3.2003.

(16)

Question-14

The Balance Sheet of Sandhead Club as on 31.12.2001 was as follows :

Fund and Liabilities	Rs	Assets	Rs
Accumulated Fund	102,700	Building	100,000
Life Membership Fund	37,800	Equipments	15,000
		Furniture	2,000
Bar Creditors	14,000	Bar Stock	10,000
Subscriptions in Advance	1,000	Bar Debtors	12,000
		Cash and Bank	15,000
		Subscriptions in Arrear	1,500
	155,500		155,500

The following are the transactions during the year 2002:

Subscriptions

The club has 300 annual members. In December 2001: it was decided to raise the subscriptions from the current Rs.100 p.a. to Rs.150 p.a. from the year 2002. The members who have paid in advance will be allowed subscriptions at the old rates. Subscriptions in arrear on 31.12.2001 were received during 2002 with the exception of those due from 5 members which is to be treated as bad. Subscriptions in arrear for the year 2002 are in respect of 15 members.

Life Membership Fund

For many years, life membership of the club cost Rs.1,000 but w.e.f. 1.1.2002, the rate has been increased by Rs.200. The life membership details on 31.12.2001 were as follows:

During 2002, 4 new members were enrolled and one other member (who had joined in 1998) died.

Donation

At the beginning of 2002, the club received a donation of Rs.50,000. The amount was invested in 10% Govt. Securities. As per the desire of the donor, the principal amount should be maintained for a period of 10 years, but the income to be generated from that can be used for current operations. The interest accrued on 31.12.2002 amounted to Rs.4,500.

Bar

The gross profit percentage is 20% on sales. Purchases made during the year were Rs.55,000-out of which Rs.30,000 on credit. During the year, amount received from debtors was Rs.32,000 and amount paid to the creditors was Rs.24,000. On 31.12.2002, debtors were Rs.10,000 and the value of the stock was Rs.25,000. The salaries and other expenses were Rs.4,000.

Furniture

A part of the furniture was sold on 1.1.2002 for Rs.750. On 31.12.2002, the value of the furniture was Rs.1,080 after charging depreciation @ 10% p.a.

Expenses

During the year, the club paid for the following:

(i) Salaries Rs.12,000; (ii) Repairs Rs.5,000; (iii) Electricity Rs.12,000; (iv) Miscellaneous expenses Rs.14,000.

You are required to prepare:

(i) Receipts and Payments Account;

(ii) Income and Expenditure Account for the year ended 31.12.2002; and

(iii) Balance Sheet as on that date. **(20)**

Question-15

From the following information, prepare a Receipts and Payments Accounts for the year ended 31st December.2002.

Receipts:

- Donation for Building Rs.60,000;
- Sale of old newspapers Rs.500;
- Fees for coaching Rs.2,000;
- Sundries Rs.200:
- Subscriptions realised for 2001 Rs.4,000;
- Subscriptions for 2002 Rs.25,000;
- Subscriptions for 2003 Rs.600.

Payments:

- Salaries Rs.6,000;
- Repairs Rs.1,000;
- Newspaper Rs.1,000;
- Printing and Stationery Rs.500;
- Rates and Taxes Rs.1,000;
- Electricity Rs.400;
- Sundries Rs.200:
- Construction of Building Rs.50,000.

Cash-in-Hand: 1st January Rs.1,000; 31st December 2002 Rs.33,200.

Other Information:

(i) Subscriptions to be realised for 2002 Rs.1,200:

(ii) Outstanding Expenses: Repairs Rs.100; Printing Rs.400.

Also pass journal entry for building donation received and construction of building. **(12)**

Question-16

The following balances are obtained from the books of Kanpur Cricket Club as on 31.3.2002 and 31.3.2003 (all figures in rupees):

Particulars	31.3.2002	31.3.2003	Particulars	31.3.2002	31.3.2003
Buildings	80,000	85,500	Outstanding Expenses	3,000	1,200
Furniture	40,000	30,600	Sports Equipments	24,000	21,600
Advance Subscriptions	1,500	1,000	Investments	-	12,000
Arrears of Subscriptions	3,000	5,000	Books	15,000	16,200
Prepaid Expenses	800	1,000	Cash	16,000	17,100

Consider the following information relevant to the year 2002-03:

(i) Depreciation provided for the year: Building – Rs.4,500; Furniture – Rs.3,400; Sports equipments – Rs.5,400; Books – Rs.1,800.

(ii) Some old furniture standing in the books for Rs.6,000 as on 1.4.2002 was sold for Rs.4,000 on the same date.

(iii) The Club had 300 members on 31.3.2003 as per the Register of Members. No fresh members were admitted during the year but 10 members left the Club on 1.10.2002.

(iv) Subscriptions payable - Rs.15 per month.

(v) Donation received Rs.5,000 has been capitalised.

(vi) Considerable expenses were paid during the year.

Required:

Prepare a Receipts and Payments Account and Income and Expenditure Account for the year ended 31.3.2003 and the Balance Sheet as on that date. **(12)**

Question-17

Prepare a Receipts and Payments Account of Woodburn Club for the year ended 31.12.2002. Income & Expenditure Account for the year ended 31.12.2002 is as follows:

Income	
Donations	430
Subscriptions	600
	1,030
Expenses	
Salaries	700
General expenses	200
Depreciation of assets	120
	(1,020)
Surplus	10

Adjustments were also to be made for the following items: Subscriptions for 2001' outstanding on 1.1.2002. Rs.80 but Rs.72 only of this amount were realised in 2002. Subscriptions received in advance on 31.12.2001 were Rs.20 and 31.12.2002 were Rs.16. Subscriptions for 2002 outstanding at 31.12.2002 were Rs.28. Fixed Assets on 1.1.2002 were Rs.1,040. Fixed Assets (after depreciation) were Rs.1,080 on 31.12.2002. Cash in hand on 31.12.2002 was Rs.264. **(12)**

Question-18

Income and Expenditure Account of Boat Club for the year ended on 31.12.2002 stood as follows:

	Rs.
Income	
Subscriptions	38,000
Entrance Fees	10,500
Donation	12,000
Sale of Old Periodicals	500
	61,000
Expenses	
Salaries	19,500
General Expenses	10,000
Audit Fees	2,500
Printing and Stationery	6,000
Interest and Bank Charges	3,000
Rent	3,000
Periodicals	4,000
Travelling Expenses	2,500
Depreciation on Furniture	1,500
	(52,000)
Surplus	9,000

The following is the Balance Sheet of the Club as at 31.12.2001:

Funds and Liabilities		Rs	Assets	Rs
Liabilities for:	Salaries	1,500	Furniture	7,500
	Rent	500	Sports Equipment	10,000
Advance Subscriptions (2002)		1,000	Subscriptions Receivable	4,000
General Fund		37,000	Cash and Bank	18,500
		40,000		40,000

Other details on 31.12.2002: Salaries outstanding-Rs.2,500; Subscriptions outstanding-Rs.3,000; Subscriptions received in advance-Rs.1,000.

Required:

Prepare Receipts and Payments Account for 2002 and Balance Sheet as at 31.12.2002. **(14)**

PRACTICE SOLUTIONS

Answer-1

Gulshan Joy Club
Income and Expenditure account
for the year ended December 31, 2012

		Rs.
Incomes		
Entrance Fee		23,000
Donation		9,600
Subscription (W-1)		144,500
		177,100
Expenses		
Tournament Expenses		6,300
Electricity (W-4)		29,000
Salaries and Wages		35,000
Depreciation on Sports Equipment (W-2.1)		34,083
Depreciation on Furniture		8,500
		(112,883)
Surplus		**64,217**

Gulshan Joy Club
Balance Sheet
as on December 31, 2012

		Rs.
Capital and liabilities		
Capital		
Opening Fund	(W-5)	736,500
Surplus/(Deficit)		64,217
		800,717
Current Liabilities		
Subscription Received in advance		7,500
Electricity Payable		3,000
		10,500
Total		**811,217**
Assets		
Non-Current Assets		
Sports Equipment	(W-2)	150,917
Club Ground		450,000
Furniture	(W-3)	76,500
		677,417
Current Assets:		
Subscription Receivable		8,000
Cash and Bank Balance		125,800
		133,800
Total		**811,217**

WORKINGS

(W-1) **Subscription account**

Dr.		Cr.	
op. receivable	3,000	op. advance	12,000
I and E (Bal.)	144,500	Cash and bank (3,000 + 124,500 + 7,500)	135,000
cl. advance	7,500	cl. receivable	8,000

(W-2) **Sports equipment**

Dr.		Cr.	
b/d	150,000	Depreciation (W-2.1)	34,083
Cash and bank	35,000	c/d (bal.)	150,917

(W-2.1) **Depreciation**

		Rs
On opening assets	(150,000 × 20%)	30,000
On additions	(35,000 × 20% × 7/12)	4,083
		34,083

(W-3) **Furniture**

Dr.		Cr.	
b/d	85,000	Depreciation (85,000 × 10%)	8,500
		c/d (bal.)	76,500

(W-4) **Electricity**

Dr.		Cr.	
Cash and bank	26,000	op.	-
cl.	3,000	I and E (Bal.)	29,000

(W-5) **Opening fund**

	Rs.
Assets	
Sports Equipment	150,000
Club Grounds	450,000
Furniture	85,000
Subscription Receivable	3,000
Cash and Bank Balance	60,500
	748,500
Liabilities	
Subscription Received in advance	12,000
	(12,000)
	736,500

Answer-2

Friends Association
Income and Expenditure account
For the year ended December 31, 2011

Incomes		Rs.
Subscription	(W-1)	12,000
Entrance Fee		2,000
Interest on Investment		1,500
Donation		750
		16,250

Expenses

Rent	(W-3)	3,600
Salaries and Wages	(W-2)	8,500
Depreciation on Furniture (1,500 × 10%)		150
Repairs		600
		(12,850)
Surplus		3,400

WORKINGS

(W-1) **Subscription account**

Dr.			Cr.
op. receivable	-	op. advance	-
I and E (Bal.)	12,000	Cash and bank	10,500
cl. advance	500	cl. receivable	2,000

(W-2) **Salaries expense**

Dr.			Cr.
op.	-	I and E (Bal.)	8,500
Cash and bank	8,750	cl.	250

(W-3) **Rent expense**

Dr.			Cr.
Cash and bank	3,300	op.	-
cl. (3,300/11 × 1)	300	I and E (Bal.)	3,600

Answer-3

Lahore Sports club
Income and Expenditure account
for the year ended March 31, 2010

Incomes		Rs.
Entrance Fee		30,000
Subscription	(W-1)	170,000
Locker's Rent	(W-2)	27,800
		227,800
Expenses		
Rent	(W-4)	61,000
Stationery	(W-3)	3,270
Wages		12,500
Depreciation on Billiard Tables (125,000 × 25%)		31,250
Repair and Renewals		13,600
		(121,620)
Surplus		106,180

Lahore Sports club
Balance Sheet
as on March 31, 2010

Capital and liabilities		Rs.
Capital		
Opening Fund	(W-5)	31,550
Surplus/(Deficit)		106,180
		137,730

Current Liabilities		
Rent Payable		7,000
Subscription received in advance		24,000
		31,000
Total		**168,730**
Assets		
Non-Current Assets		
Billiard Tables	(125,000 – 31,250)	93,750
Current Assets:		
Cash & Bank		55,700
Subscription Receivable		10,000
Locker Rent Receivable		8,500
Stationery Prepaid		780
		74,980
Total		**168,730**

WORKINGS

(W-1) **Subscription account**

Dr.			Cr.
op. receivable	13,500	op. advance	-
I and E (Bal.)	170,000	Cash and bank	197,500
cl. advance	24,000	cl. receivable	10,000

(W-2) **Locker rent account**

Dr.			Cr.
op. receivable	5,000	op. advance	-
I and E (bal.)	27,800	Cash and bank	24,300
cl. advance	0	cl. receivable	8,500

(W-3) **Stationery expense**

Dr.			Cr.
		op.	950
Cash and bank	5,000	I and E (bal.)	3,270
		cl.	780

(W-4) **Rent expense**

Dr.			Cr.
Cash and bank	60,000	op.	6,000
cl.	7,000	I and E (bal.)	61,000

(W-5) **Opening fund**

	Rs.
Assets	
Cash & Bank	20,000
Subscription Receivable	13,500
Locker Rent Receivable	5,000
	38,500
Liabilities	
Rent Payable	6,000
Stationery Payable	950
	6,950
	31,550

Answer-4

Lahore Club
Income and Expenditure account
for the year ended March 31, 2003

		Rs.
Incomes		
Card and billiard room receipt		4,000
Profit from bar	(W-1)	1,500
Subscription	(W-2)	32,000
		37,500
Expenses		
Rent		6,000
Rates, taxes and insurance		600
Secretary's honorarium		1,200
Entrance fees		1,000
Steward and servant wages		5,800
Printing and stationery		1,000
Law charges		500
Washing of liveries and sundries		1,600
Repairs to club house and furniture		400
Depreciation	(1,000 + 800 + 200)	2,000
Conversion expenses		1,000
Interest on loan	(20,000 × 15% × 9/12)	2,250
		(23,350)
Surplus/(Deficit)		**14,150**

Lahore Club
Balance Sheet
as on March 31, 2003

		Rs.
Fund and liabilities		
Fund		
General Fund		30,000
Surplus/ (Deficit)		14,150
		44,150
Loan Payable		20,000
Current Liabilities		
Creditors		1,500
Rent payable		1,500
Interest payable	(2,250 – 1,000)	1,250
		4,250
Total		**68,400**
Assets		
Non-Current Assets		
Furniture and fixture	(10,000 – 1,000)	9,000
Club House	(40,000 – 800)	39,200
Extension of Club House	(10,000 – 200)	9,800
		58,000

Current Assets:

Bank		3,000	
Cash		2,000	
Debtors		2,400	
Subscription receivable		2,000	
Stocks	(400 + 600)	1,000	10,400
Total			**68,400**

WORKINGS

(W-1) Profit from bar

		Rs.	Rs.
Revenue			5,000
Less: COS			
Op. stock		500	
Purchases		4,000	
Less: Cl. Stock	(400 + 600)	(1,000)	(3,500)
Profit			1,500

(W-2) **Subscription account**

Dr.			**Cr.**
I and E (bal.)	32,000	Cash	30,000
		cl. receivable	2,000

Answer-5

Medical Aid Society
Income and Expenditure account
for the year ended December 31, 2002

		Rs.
Incomes		
Donations		14,500
Interest on investments		7,000
Charity show profit	(10,000 – 1,000)	9,000
Subscription	(W-l)	51,000
		81,500
Expenses		
Medicine consumed	(W-3)	29,000
Honorarium to doctors		10,000
Salaries		27,500
Sundry expenses		500
Depreciation		
- Equipment	(21,000 + 15,000 – 30,000)	6,000
- Building	(40,000 – 38,000)	2,000
		(75,000)
Surplus/(Deficit)		6,500

Medical Aid Society
Balance Sheet
as on December 31, 2002

Fund and liabilities		**Rs.**
Fund		
Opening fund	(W-4)	169,500
Surplus/(Deficit)		6,500
		176,000
Current liabilities		
Amount due to medicine suppliers		12,000
Subscription in advance		500
		12,500
Total		**188,500**
Assets		
Non-Current Assets		
Equipment		30,000
Building		38,000
		68,000
Investments		100,000
Current Assets:		
Subscription receivable		1,000
Stock of medicine		15,000
Cash and bank		4,500
		20,500
Total		**188,500**

WORKINGS

(W-1) **Subscription account**

Dr.		Cr.	
op. receivable	500	op. advance	1,000
I and E (bal.)	51,000	Cash	50,000
cl. advance	500	cl. receivable	1,000

(W-2) **Creditor for medicine**

Dr.		Cr.	
Bank	30,000	op.	8,000
cl.	12,000	Purchase (bal.)	34,000

(W-3) **Medicine stock account**

Dr.		Cr.	
op.	10,000	I and E (bal.)	29,000
Creditors(Purchases) (W-2)	34,000	cl.	15,000

(W-4) **Opening fund**

		Rs
Assets		
Subscription receivable		500
Stock of medicine		10,000
Equipment		21,000
Building		40,000
Investments	*(7,000/7 × 100)	100,000
Cash and bank		7,000
		178,500
Liabilities		
Subscription in advance		1,000
Amount due to medicine suppliers		8,000
		9,000
		169,500

- Interest income is grossed up to calculate the opening cost of investment.

If the investments are not appearing on the payment side in receipt and payment account it means that investments are appearing since last year.

Answer-6

Club
Income and Expenditure account
for the year ended March 31, 2003

		Rs.
Incomes		
Entrance fees		3,200
Profit from restaurant	(W-1)	6,400
Competition profit	(13,640 – (W-4) 4,300)	9,340
Miscellaneous income		80
Subscription	(W-2)	29,620
		48,640
Expenses		
Wages		13.380
Rent	(7,500/18M × 12M)	5,000
Rates		2.200
Secretary's salary		3,120
Lighting,, cleaning and sanitary services		7,700
Printing, postage and sundries		6,000
Depreciation	(48.000 × 10%)	4,800
		(42.200)
Surplus/(Deficit)		6,440

Club
Balance Sheet
as on March 31, 2003

		Rs.
Fund and liabilities		
Fund	(W-5)	
Opening Fund		50,390
Surplus/(Deficit)		6,440
		56,830
Current Liabilities		
Suppliers of restaurant		5,600
Subscription in advance		400
		6,000
Total		**62,830**
Assets		
Non-Current Assets		
Furniture and equipment (48,000 – 4,800)		43,200
Fixed Deposit		8,000
Current Assets:		
Cash and bank		5,880
Restaurants stock		3,000
Subscription receivable		1,000
Prepaid rent (7,500/18M × 3M)		1.250
Prizes in hand		500
		11.630
Total		**62,830**

WORKINGS

(W-1) Profit/(loss) from restaurant

		Rs.	Rs.
Revenue			56,800
Less; COS			
Op. Stock		2,600	
Purchases	(W-3)	50,800	
Less: Cl. Stock		(3,000)	(50,400)
Profit			6,400

(W-2) Subscription account

Dr.		Cr.	
op. receivable	700	op. advance	
I and E (bal.)	29,620	Cash and bank	29,720
cl. advance	400	cl. receivable	1,000

(W-3) Suppliers for restaurants

Dr.		Cr.	
Cash and bank	50,400	op.	5,200
cl.	5,600	Purchases (bal.)	50,800

(W-4) Prizes account

Dr.		Cr.	
op.	800	I and E (bal.)	4,300
Cash (Purchases)	4,000	cl.	500

(W-5) Opening fund

	Rs.
Assets	
Cash and bank	4,740
Furniture and Equipment	48,000
Restaurant stocks	2,600
Stocks of prizes	800
Subscription receivable	700
	56,840
Liabilities	
Rent Payable (1.1.2002 – 31.3.2002) (7,500/18M × 3M)	1,250
Suppliers of restaurant	5,200
	6,450
	`50,390

Answer-7

New Murree Recreation Club
Income and Expenditure account
for the year ended December 31, 2002

Incomes		Rs.
Profit from tennis section	(W-I)	11,000
Profit from badminton section	(W-I)	7,000
Profit from annual dinner	(12,000 – 10,500)	1,500
Interest income	(W-3)	1,200
Subscription		25,000
		45,700

Expenses		
Rates of club house		12,000
Miscellaneous expenses	(W-2)	14,000
Postage expense		1,000
Depreciation		
- Furniture	(25,000 × 10%)	2,500
		(29,500)
Surplus/(Deficit)		16,200

New Murree Recreation Club
Balance Sheet
as on December 31, 2002

Fund and liabilities		Rs.
Fund		
Opening Fund		417,500
Surplus/(Deficit)		16,200
		433,700
New coaching scholarship fund		10,000
Current Liabilities		
Tennis membership in advance	(W-4)	54,000
Total		497,700
Assets		
Non-Current Assets		
Club house		250,000
Tennis court	(100,000 + 100,000)	200,000
Less: Accumulated depreciation	(20,000 + 20,000)	(40,000)
Badminton court		50,000
Less: Accumulated depreciation	(15,000 + 5,000)	(20,000)
Furniture	(25,000 – 2,500)	22,500
		462,500
Bank deposit account		14,200
Current Assets:		
Cash and bank		20,800
Petty cash		200
		21,000
Total		497,700

WORKINGS

(W-1) **Profit from tennis section and badminton section**

			Tennis	Badminton
Membership subscription		(W-4)	6,000	
Sectional subscription			3 2,000	21,000
Entry fee			20,000	5,000
			58,000	26,000
Less:	Expenses			
	On tournament		15,000	4,000
	Depreciation			
	- Tennis court.	(100,000 + 100,000)/10	20,000	
	- Badminton court	(50,000/10)		5,000
	General expenses		12,000	10,000
			47,000	19,000
Profit			11,000	7,000

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(W-2) Petty cash

Dr.		Cr.	
op.	500	Postage exp. (bal.)	1,000
Cash and bank	700	c/d	200

(W-3) Bank Deposit account

Dr.		Cr.	
op.	10,000		
Cash and bank	3,000		
Interest income (bal.)	1,200	cl.	14,200

(W-4) Tennis membership

Dr.		Cr.	
I and E (bal.)	6,000	Cash and bank	60,000
cl. (60,000/10 x 9)	54,000		

Answer-8

Sydney Club
Income and Expenditure account
For the year ended March 31, 2003

		Rs.
Incomes		
Subscription	(W-2)	194,750
Entrance donation		100,000
Interest income	(500,000 × 12%)	60,000
Miscellaneous income		9,000
Profit from bar	(W-1)	10,000
Swimming pool		80,000
Tennis court		2,000
		455,750
Expenses		
Loss on disposal of assets	(10,000 + 8,000)	2,000
Depreciation	(W-5)	49,000
Salaries	(120,000 + 8,000)	128,000
Printing and stationery		70,000
Postage		40,000
Telephone and telex		52,000
Repairs and maintenance		48,000
Glass and Table Linen		12,000
Crockery and Cutlery		14,000
Garden Upkeep		8,000
Membership fees		4,000
Insurance	(W-4)	6,000
Electricity	(28,000 + 15,000)	43,000
		(476,000)
Surplus/(Deficit)		(20,250)

Sydney Club
Balance Sheet
as on March 31, 2003

		Rs.
Fund and liabilities		
Fund		
Opening Fund	(W-7)	1,029,850
Surplus/(Deficit)		(20,250)
		1,009,600
Building Fund account		250,000

Current Liabilities		
Salary payable		8,000
Electricity payable		15,000
Subscription in advance		18,000
Creditors	(W-3)	92,000
		133,000
Total		**1,392,600**
Assets		
Non-Current Assets		
Fixed assets	(W-5)	441,000
Government securities		500,000
Current Assets:		
Cash		8,000
Bank		224,600
Stock		210,000
Interest receivable	(60,000 – 58,000)	2,000
Subscription receivable		7,000
		451,600
Total		**1,392,600**

WORKINGS

(W-1) Profit from bar

	Rs.	Rs.
Revenue		
- Coffee room		1,070,000
- Biscuits		610,000
		1,680,000
Less: COS		
Op. stock	380,000	
Purchases	1,500,000	
Less: Cl. Stock	(210,000)	(1,670,000)
Profit		**10,000**

(W-2) Subscription account

Dr.			Cr.		
op. Receivable		12,000	op. advance		15,000
I and E	(bal.)	194,750	Cash		202,750
cl. advance		18,000	cl. receivable		7,000

(W-3) Creditor for purchases

Dr.			Cr.		
Bank		1,520,000	op.		112,000
cl.	(bal.)	92,000	Purchases		1,500,000

(W-4) Insurance expense

Dr.			Cr.		
op.		1,000	I and E	(bal.)	6,000
Cash		5,000	cl.		-

(W-5) Fixed assets - at WDV

Dr.		Cr.	
op.	500,000	Disposals	10,000
		Depreciation (500,000 – 10,000) × 10%	49,000
		cl. (bal.)	441,000

Scanned with CamScanner

(W-6) **Opening fund**

	Rs.
Assets	
Cash	10,000
Bank	3,850
Fixed assets	500,000
Stock	380,000
Government securities	500,000
Subscription receivable	12,000
Prepaid insurance	1,000
	1,406,850
Liabilities	
Sundry creditors	112,000
Subscription received in advance	15,000
Building Fund	250,000
	(377,000)
	1,029,850

Answer-9

Sargodha Boys Club
Income and Expenditure account
for the year ended December 31. 2002

		Rs.
Incomes		
Profit from bar	(W-1)	10,500
Subscription	(W-2)	56,800
		67,300
Expenses		
Salaries	(15,000 × 1/2)	7,500
Electricity		5,500
Cleaning		2,600
Sundry expenses		8,200
Bad debts		1,650
Depreciation		
- Equipment	(15,000 – 12,000)	3,000
- Vehicle	(80,000 – 65,000)	15,000
- Furniture	(40,000 – 36,000)	4,000
		(47,450)
Surplus/(Deficit)		19,850

Sargodha Boys Club
Balance Sheet
as on December 31, 2002

		Rs.
Fund and liabilities		
Fund		
Opening fund	(W-9)	155,000
Surplus/(Deficit)		19,850
		174,850
Life membership fund	(W-5)	74,200
Loan	(W-3)	120,000
Current Liabilities		
Subscription in advance		3,550
Total		372,600

Scanned with CamScanner

Assets		
Non-Current Assets		
Club house		175,000
Equipment		12,000
Vehicle		65,000
Furniture		36,000
		288,000
Current Assets:		
Bar stock		8,000
Cash and bank	(W-4)	72,800
Subscription receivable		3,800
		84,600
Total		372,600

WORKINGS

(W-1) **Profit from bar**

		Rs.	Rs.
Revenue	(W-8)		30,000
Less: COS			
Op. Stock		5,000	
Purchases		15,000	
Less: Cl. Stock		(8,000)	(12,000)
Gross profit			18,000
Less: Salaries	(15,000 × 1/2)		(7,500)
Profit			10,500

(W-2) **Subscription account**

Dr.			Cr.
op. Receivable	4,400	op. Advance	2,350
I and E (bal.)	56,800	Cash and bank	56,950
		Bad debt (4,400 – 2,750)	1,650
cl. Advance (1,200 + 2,350)	3,550	cl. receivable	3,800

(W-3) **Loan account**

Dr.			Cr.
Cash and bank	20,000	op. (bal.)	140,000
cl. (200,000 – 80,000)	120,000		

(W-4) **Receipt and payment account**

Receipts	Rs.	Payments	Rs.
b/d	25,150	Loan	20,000
		Bar purchases	15,000
Subscription	56,950	Salaries	15,000
Life membership fund	27,000	Electricity	5,500
Bar sales	30,000	Cleaning	2,600
		Sundry Expenses	8,200
		c/d (bal.)	72,800

(W-5) **Life membership subscription**

Dr.			Cr.
		b/d	47,200
c/d (bal.)	74,200	Cash	27,000

(W-6) Calculation of gross profit at bar

Net Profit = Gross profit - Expenses (1/2 of salaries)

10,500 = X – (1/2 of 15,000)

X = 18,000

(W-7) Calculation of cost of sales

Sales - COS = Gross profit (W-6)

30,000-X = 18,000

X= 12,000

(W-8) Calculation of opening stock at bar

COS (W-7) = Op stock + Purchases-cl. Stock

12,000 = X + 15,000 - 8,000

X = 5,000

(W-9) Opening fund

		Rs.
Assets		
Club house		175,000
Equipment		15,000
Vehicle		80,000
Furniture		40,000
Cash and bank		25,150
Subscription receivable		4,400
Bar stocks	(W-8)	5,000
		344,550
Liabilities		
Loan payable	(W-3)	140,000
Life member ship fund		47,200
Subscription in advance		2,350
		189,550
		155,000

Answer-10

Barisha Recreation Club
Income and Expenditure account
for the year ended December 31, 2002

		Rs.
Incomes		
Subscription	(W-2)	2,150
Sale of tickets for annual exhibition		10,000
Interest income	(1,300 + 1,200)	2,500
Profit from refreshment	(W-1)	6,600
		21,250
Expenses		
Rent expense	(W-5)	1,200
Painting of club house		700
Wages of Ground Maintenance.		1,500
General Expenses		1,300
Electricity Charges		1,800
Secretary's Honorarium		600
Annual Meeting Expenses		400

Printing and Stationery	(W-4)	500
Insurance	(500 – 75) – 100	320
Loss on sale of furniture		325
Depreciation		
- furniture	(8,000 – 500) × 10% + (500 × 10% × 6/12)	775
- Equipment	(1,800 × 10%)	180
		(9,600)
Surplus/(Deficit)		11,650

Barisha Recreation Club
Balance Sheet
as on December 31, 2002

		Rs.
Fund and liabilities		
Fund		
Opening fund	(W-7)	52,670
Surplus/(Deficit)		11,650
		64,320
Life subscription	(W-6)	4,500
Current Liabilities		
Rent payable		100
Creditor for refreshment		500
Subscription in advance		200
		800
Total		69,620
Assets		
Non-Current Assets		
Land		20,000
Sports equipment	(1,800 – 180)	1,620
Furniture	(8,000 – 500)	7,500
Less: Accumulated depreciation	(800 + 775 – 75)	(1,500)
		27,620
Investments	(20,000 + 10,000)	30,000
Current Assets:		
Interest receivable on investment		1,200
Stock of refreshment		2,100
Prepaid insurance		50
Subscription receivable	(W-2)	350
Bank		6,300
Cash		2,000
		12,000
Total		69,620

WORKINGS

(W-1) **Profit from refreshment activity**

	Rs.	Rs.
Revenue		12,000
Less: COS		
Op. stock	1,900	
Purchases	5,600	
Less: Cl. Stock	(2,100)	(5,400)
Profit		6,600

(W-2) **Subscription account**

Dr.		Cr.	
op.-receivable	150	op. advance	50
I and E (bal.)	2,150	Cash (100 + 1,800 + 200)	2,100
cl. advance	200	cl. Receivable (300 + (150 – 100))	350

(W-3) **Creditor for purchases**

Dr.		Cr.	
Bank	5,500	op.	400
cl.	500	Purchases (bal.)	5,600

(W-4) **Insurance expense**

Dr.		Cr.	
op.	70	I and E (bal.)	320
Cash	300	cl.	50

(W-5) **Rent expense**

Dr.		Cr.	
Bank	1,300	b/d	200
c/d	100	I and E (bal.)	1,200

(W-6) **Life membership subscription**

Dr.		Cr.	
		b/d	2,500
c/d (bal.)	4,500	Cash	2,000

(W-7) **Opening fund**

		Rs,
Assets		
Cash in hand		500
Cash at bank		6,000
Subscription receivable		150
Stock of refreshment		1,900
Prepaid insurance		70
Investment		20,000
Land		20,000
Furniture		8,000
Less : Accumulated depreciation	(8,000 × 10%)	(800)
		55,820
Liabilities		
Subscription in advance		50
Life membership subscription		2,500
Rent accrued		200
Creditors for refreshment		400
		3,150
		52,670

Answer-11

(i) **Cash account**

Dr.		Cr.	
Op.	35	Bank	42,610
		Glass, crockery etc.	1,3 10
Subscription	3,050	Wages	2,658
Bank	5,848	Insurance	210
Bar room takings	40,612	Sundry expense	257
		Insurance receivable (bal.)	2,500
		cl.	

(ii)

Comrades Club
Income and Expenditure account
for the year ended December 31, 2002

		Rs.
Incomes		
Profit from bar	(W-1)	4,854
Subscription		3,050
		7,904
Expenses		
Rent and rates	(W-2)	500
Insurance	(40 + 210)	250
Electricity	(W-3)	150
Telephone		59
Glass, crockery and maintenance		1,310
Wages		2,658
Sundry expenses		257
		(5,184)
Surplus/(Deficit)		2,720

WORKINGS

(W-1) **Profit from bar**

		Rs.	Rs.
Revenue			40,612
Less: COS			
Op. Stock		3,607	
Purchases	(W-3)	35,067	
Less: Cl. Stock		(2,916)	(35,758)
Profit			4,854

(W-2) **Rent and Rates expense**

Dr.				Cr.
b/d	26	b/d		40
Bank	460	I and E	(bal.)	500
c/d	82	c/d		28

(W-3) **Electricity expense**

Dr.				Cr.
Bank	156	op.		24
cl.	18	I and E	(bal.)	150

Answer-12

Universal Brotherhood Club
Receipt and payment account
for the year ended December 31, 2002

Receipts	Rs.	Payments	Rs.
op.	14,000	Salaries	15,400
Subscription(W-1)	67,200	Sports goods purchased (11,200 – 5,600)	5,600
Investments Sold	6,720	Sports expenses	14,000
Interest income (7,000 × 5%)	350	Miscellaneous expense	4,200
Disposal	700	Rent	8,400
		c/d (bal.)	41,370

Universal Brotherhood Club
Income and Expenditure account
for the year ended December 31, 2002

		Rs.
Incomes		
interest income on investments	(7,000 × 5%)	350
Subscription		70,000
		70,350
Expenses		
Salaries	(W-2)	14,000
Sports expenses		14,000
Miscellaneous expenses		4,200
Rent		8,400
Loss on sale of investments	(7,000 – 6,720)	280
Loss on sale of furniture	(1,400 – 700)	700
Depreciation		
- Furniture	(2,800 – 1,400) × 10%	140
- Sports goods	(5,600 × 20%)	1,120
		(42,840)
Surplus/(Deficit)		**27,510**

Universal Brotherhood Club
Balance Sheet
as on December 31, 2002

		Rs.
Fund and liabilities		
Fund		
Opening Fund	(W-4)	46,200
Surplus/(Deficit)		27,510
		73,710
Current Liabilities		
Salaries payable		700
Subscription in advance		5,600
		6,300
Total		**80,010**
Assets		
Non-Current Assets		
Furniture account	(W-3)	1,260
Sports goods	(11,200 – 1,120)	10,080
		11,340
Investments		7,000
Current Assets:		
Cash and bank		41,370
Subscription receivable		19,600
Salaries prepaid		700
		61,670
Total		**80,010**

WORKINGS

(W-1)

Subscription account

Dr.			Cr.
op. receivable	14,000	op. advance	2,800
I and E	70,000	Cash and bank (bal.)	67,200
cl. advance	5,600	cl. receivable	19,600

(W-2)

Salaries payable

Dr.			Cr.
		op.	1,400
Cash and bank	15,400	I and E (bal.)	14,000
cl.	700	cl. (Adv.)	700

(W-3)

Furniture account

Dr.			Cr.
op.	2,800	Disposal	1,400
		Depreciation (2,800 – 1,400) × 10%	140
		cl. (bal.)	1,260

(W-4) **Opening fund**

	Rs.
Assets	
Furniture	2,800
Sports goods	5,600
Investments	14,000
Cash and bank	14,000
Subscription receivable	14,000
	50,400
Liabilities	
Subscription in advance	2,800
Salaries payable	1400
	4,200
	46,200

Answer-13

(a)

Bilal Sports Club
Bar Trading account
for the year ended March 31, 2003

		Rs.	Rs.
Revenue	(see below)		101,370
Less: COS			
Op. stock		8,400	
Purchase	(W-2)	72,950	
Less: Cl. Stock		(9,200)	(72,150)
Profit			**29,220**

Calculation of sales

Cost of sale	(As above)	72,150
Less: Cost of goods which are sold at cost		(3,970)
Cost of goods which are sold at 30% of selling price		68,180
Selling price of goods which are sold at profit (68,180/70 × 100)		97,400
Selling price of goods which are sold at cost		3,970
Total sales		**101,370**

(b)

Bilal Sports Club
Receipt and payment account
for the year ended March 31, 2003

Receipts	Rs.	Payments	Rs.
Subscription (W-1)	4,500	Purchase of equipment	1,000
Bar sales (part-a)	101,370	Lighting	2,620
		Repairs to equipment	1,760
		Bar creditors	74,550
		Rental of premise	10,000
		Club match expenses	6,750
		Trophies	4,240
		Refreshment for visiting teams	2,350
		Saving account (bal.)	2,600
		c/d	-

(c)

Bilal Sports Club
Income and Expenditure account
for the year ended March 31, 2003

		Rs.
Incomes		
Profit from bar	(part-a)	29,220
Interest on saving account		3,500
Subscription	(W-1)	5,000
		37,720
Expenses.		
Lighting		2,620
Repairs to equipment		1,760
Rental of premises		10,000
Club match expenses		6,750
Trophies		4,240
Refreshment for visiting teams		2,350
Depreciation	(40,000 + 1,000) × 10%	4,100
		(31,820)
Surplus/(Deficit)		**5,900**

(d)

Bilal Sports Club
Balance Sheet
as on March 31, 2003

		Rs.
Fund and liabilities		
Fund		
Opening Fund	(W-4)	87,600
Surplus/(Deficit)		5,900
		93,500
Current liabilities		
Bar creditors		4,700
Total		**98,200**
Assets		
Non-Current Assets		
Equipment	(40,000 + 1,000 – 4,100)	36,900

Current Assets		
Bar stock		9,200
Saving account	(W-3)	52,100
		61,300
Total		98,200

WORKINGS

(W-1) **Subscription account**

Dr.			Cr.
op. Receivable	-	Op. Advance (10 × 50)	500
I and E (100 x 50)	5,000	Cash and bank (bal.)	4,500
cl. advance	-	cl. receivable	-

(W-2) **Creditor for bar**

Dr.			Cr.
Cash and bank	74,550	op.	6,300
cl.	4,700	Purchase (bal.)	72,950

(W-3) **Saving account**

Dr.			Cr.
b/d	46,000		
Interest	3,500		
Cash (put in) (part-b)	2,600	c/d (bal.)	52,100

(W-4) **Opening fund**

	Rs.
Assets	
Equipment	40,000
Bar stocks	8,400
Saving account	46,000
	94,400
Liabilities	
Subscription in advance	500
Bar creditors	6,300
	6,800
	87,600

Answer-14

(i)

Sandhead Club
Receipt and payment account
For the year ended December 31, 2002

Receipts	Rs.	Payments	Rs.
b/d	15,000	Bar purchases (55,000 – 30,000)	25,000
		Bar creditors	24,000
Subscription (W-2)	42,250	Bar salaries and exp.	4,000
Life mem. fund (W-6)	4,800	Govt. Securities	50,000
Donation	50,000	Salaries	12,000
Bar sales (W-4)	20,000	Repairs	5,000
Bar debtors	32,000	Electricity	12,000
Sale of furniture	750	Miscellaneous exp.	14,000
		c/d	18,800